REPORT TO THE

SAN FRANCISCO BOARD OF SUPERVISORS

MANAGEMENT AUDIT

OF THE

SAN FRANCISCO REDEVELOPMENT AGENCY

BOARD OF SUPERVISORS
BUDGET ANALYST

JANUARY 1992

CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET ANALYST

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January 31, 1992

Honorable Bill Maher
Member, Board of Supervisors
City and County of San Francisco
Room 235, City Hall
San Francisco, CA 94102

Dear Supervisor Maher:

Transmitted herewith is the Budget Analyst's management audit of the San Francisco Redevelopment Agency. As directed by the Board of Supervisors, this management audit was of limited scope and concentrated on areas of Agency operations not reviewed in the Controller's recent audit of the Agency. This management audit was conducted in accordance with Charter Section 2.401, which authorizes the Board of Supervisors to make inquiries concerning departmental operations.

The Redevelopment Agency has achieved numerous accomplishments including:

- Completed five redevelopment projects within the City, with the six remaining projects scheduled to be essentially completed by the year 2000.

- The implementation of an affordable housing program that has provided a significant number of housing units City-wide since implementation of the program three years ago.

- The adoption of the South of Market Earthquake Recovery Plan in 1990 (which was approved by the Board of Supervisors) that is resulting in a number of improvements in the neighborhood around 6th Street.

- The implementation of procedures for tracking project progress over the short-term (although, as discussed in Section 4, some project management improvements are needed).

At the same time, our report notes a number of areas where Agency operations could be improved to increase operational efficiency and effectiveness. If there is a "theme" to our report it is that the Agency needs to increase its accountability to the Board of Supervisors in order for the Board of Supervisors to fulfill its State mandated oversight responsibilities.

In accordance with your request, we conducted a survey of Redevelopment Agencies in California. We found that over 96 percent of the approximately 350 redevelopment agencies in the State have the city council serving as the redevelopment agency without the establishment of a separate agency commission. Among the ten largest cities in California, the city council serves as the redevelopment agency in eight cities and only in Los Angeles and Long Beach (in addition to San Francisco) have independent agency commissions been established. The majority of the largest cities also have the agency operating as a city department. The Budget Analyst does not make any recommendation based on these survey results. The issue of Redevelopment Agency governance is a policy matter for the Board of Supervisors.

Our report and the response of the Agency's Executive Director refers to the need for better communication and coordination with the Mayor's Office of Business and Economic Development (MOBED). Although this office existed at the time the report was written, it has since been restructured under the new administration. References to MOBED therefore should now be interpreted by the reader as applying to the new Office of Economic Planning and Development under the Mayor.

A summary of our management audit findings is as follows:

- <u>Section 1 - Agency Financing</u>

  Since FY 1989-90, the Agency has been using tax increment monies to repay tax increment-backed bonds that are issued to finance expected gaps in the Agency's budget, including administrative and personnel costs. To date, the Agency has issued approximately $89.1 million in bonds that will require approximately $7.18 million annually in tax increment revenues to repay over the next 30 years. Total estimated bond requirements to complete existing projects through the year 2000 in nominal dollars is $217,195,551 and total tax increment monies needed to repay these bonds over a 30 year period in nominal dollars is $524,872,666. Between 1989-90 through the year 2000, it is estimated that bond financing will cost over $306 million more than using a pay-as-you-go method. In discounted 1991-92 dollars, the total estimated bond needs through the year 2000 varies from

$118 million to $139 million depending on the discount rate used. Tax increment monies needed to repay the bonds over a 30 year period varies from $118 million to $170 million.

The Agency uses the bond financing method although there are sufficient tax increment revenues to fund the difference between budgeted revenues and proposed expenditures. It would be less expensive in the long run to use tax increment revenues rather than bond financing to fund redevelopment activities.

The Board of Supervisors may want to consider pay-as-you-go as a policy option when they review future tax increment backed bond issue requests because funding administrative and personnel costs with bond funds is relatively inefficient.

- <u>Section 2: Agency Budgetary Procedures</u>

Subsequent to obtaining approval of its annual budget from the Board of Supervisors, the Agency changes its budget allocations during the course of the fiscal year. There are significant differences between the Agency's annual budget as approved by the Board of Supervisors and the actual expenditures as subsequently made by the Agency. In some instances, such changes are in violation of State Health and Safety Code Section 33606, which states that the Board of Supervisors should approve amendments to the Agency's budget. The Agency has a policy of bringing budgetary revisions before the Board of Supervisors only when it wants to transfer funds into new program categories, but not when budgets are changed for existing programs. In addition, the Agency does not submit required quarterly reports of all expenditures and revenues to the Board of Supervisors. Consequently, the Agency lacks outside accountability and the Board of Supervisors is unaware of changes in the Agency's budgetary priorities. In order to prevent such unilateral budgetary changes and in order to increase accountability, the Board of Supervisors should require the Agency to obtain approval of significant budget revisions and the Agency should provide the Board of Supervisors with additional fiscal and budget information.

- <u>Section 3: Agency Information</u>

In violation of State Health and Safety Code Section 33080.1, the Agency does not submit an annual report to the Board of Supervisors. Further, the Board of Supervisors receives limited information overall describing Agency activities. As a result, it is difficult for the Board of Supervisors to have a clear understanding of Agency operations. If the Agency meets State reporting requirements and provides additional useful information, the

Board of Supervisors will fulfill its State mandated functions related to Agency operations.

- <u>Section 4: Project Management</u>

  The Agency has no formal procedures for evaluating actual project accomplishments and costs against stated goals and projected costs. Consequently, the Agency has inadequate controls to ensure that projects are completed on time and within budget. For example, Western Addition A-2 and Yerba Buena Center Project costs are 39 percent and 108 percent respectively over the original budgeted amounts. Although valid reasons may account for such cost increases, the Agency has made no attempt to evaluate the reasons for these costs increases. The Agency should conduct biennial evaluations of project performance and improve the annual work program budget. Such procedures would improve the Agency's ability to monitor and control project performance.

- <u>Section 5: Economic Development</u>

  The Agency's Economic Development Program has not been designed nor implemented in a cohesive manner. Significant monies have been allocated prior to a comprehensive needs assessment without using a competitive, request-for-proposals (RFP) process. As a result, the Agency has not ensured that Economic Development funds have been allocated as efficiently as possible.

  The Agency Commission has yet to adopt a formal implementation policy for the economic development program and has not adopted a policy to guide when Agency activities should occur outside project areas. Because of this, the current program has been implemented without any overall development plan.

  The initial focus of the economic development program, as explicitly stated in the mission statement, was to be in existing and future project areas. Yet, most of the funding to date has been outside approved project areas and nearly all of the funds allocated for the Western Addition and Hunters Point in FY 1989-90 have not been expended.

  All of the funds awarded to non-profit organizations for employment development and business and technical assistance - totalling over $2 million over two years - have been awarded without using a Request-for-Proposals (RFP) process. While Agency staff advise that this procedure will be changed, the Agency Commission should formally adopt a policy stating that funds allocated for any future activity should be awarded based on the review of proposals submitted through a competitive RFP process.

The Board of Supervisors should not approve any additional funds for Agency economic development programs until the Agency Commission adopts and submits to the Board of Supervisors a comprehensive implementation plan and the Mayor's Office of Business and Economic Development establishes specific City-wide goals and objectives. These steps would ensure that Agency funds for Economic Development are used in the most effective and efficient way possible.

- <u>Section 6: Agency Staff and Compensation</u>

The Agency's salary structure results in approximately 12 percent of Agency staff receiving compensation in excess of $70,000 annually, twice the average of seven similar City departments. An outside independent classification study of the Agency should be conducted under the jurisdiction of the Board of Supervisors. This study should determine whether the salaries of senior Agency staff should be tied to comparable City positions.

Agency projections of staff and administrative cost requirements through the year 2000 indicate a sharp decline in the need for professional staff. The Controller's audit report recommends that the Agency prepare a strategic plan. The Budget Analyst recommends that such a study be conducted under the jurisdiction of the Board of Supervisors and that the study specifically consider how Agency professional staff will be reduced if the Agency receives no new projects.

The percentage of Agency clerical staff and secretarial staff to total staff is approximately 72 percent greater than the size of clerical and secretarial staff for similar City departments. While the Agency has implemented a voice mail answering system and while 79 percent of the professional staff have personal computers, the Agency's percentage of clerical staff to total staff has increased every year since 1986. 58 percent of the Agency's secretarial positions are classified at the Executive Secretary level. The 11 Executive Secretaries in the Agency are exceeded only by one department in the entire City, the Department of Public Works which has 14 Executive Secretaries. Whereas the Agency has 108 full time authorized positions, the Department of Public Works has 1,868 full time authorized positions.

By reducing clerical staffing levels by eight positions, the Agency would be closer to the clerical levels in other similar City departments. The reduction of eight positions would save approximately $350,000 annually.

- <u>Section 7: Records Retention</u>

The Agency's Records Retention Program has not been evaluated since its formal implementation and should be re-evaluated by the Agency

Commission. The Agency should review the scope and use of the program and prepare a request for proposal (RFP) to contract out the microfilming function currently being performed by in-house staff. The use of a contractor for microfilming could save an estimated $50,000 annually with additional savings in the future, although actual savings would depend on the results of the RFP process.

Based upon these findings, our report contains the following recommendations:

In Section 1, we recommend that the Board of Supervisors:

1.1 Consider pay-as-you-go as a policy option when they review future tax increment-backed bond issues.

1.2 Consider using available tax increment revenues to fund Agency administrative and personnel costs when they review future tax increment-backed bond issues.

In Section 2, we recommend that the Agency's Executive Director:

2.1 Direct the Deputy Executive Director for Finance to submit quarterly reports to the Board of Supervisors to be scheduled at a hearing before the Finance Committee. This report should include actual expenditures and revenues and a statement of any revenue or expenditure project accounts that are expected to either increase or decrease by more than 10 percent of the amounts adopted by the Board of Supervisors.

2.2 Direct the Deputy Executive Director for Finance to include actual expenditures and revenues from the previous two years as a separate table at the end of the Agency's annual budget submitted to the Board of Supervisors. Actual expenditure data should include encumbered and unencumbered carry forward funds. In addition, the annual budget should include interest income revenues earned on bond proceeds. Finally, the annual budget should include five year expenditure and revenue projections.

We recommend that the Board of Supervisors:

2.3 Amend the City's Administrative Code to require the Redevelopment Agency to request approval from the Board of Supervisors of any transfer in project area accounts for amounts in excess of 10 percent of the annual budget amount for the project as originally approved by the Board of Supervisors. Additionally, Board of Supervisors approval should be obtained for any additional positions created during the fiscal year.

In Section 3, we recommend that the Agency Executive Director:

3.1 Submit all the information required by Health and Safety Code Section 33080.1 and a statement of Agency revenues and expenditures for fiscal year 1991-92 to the Board of Supervisors prior to December 31, 1992.

3.2 Direct the Housing Chief to produce an annual report on the tax increment housing program as outlined in the Agency's mission statement and ensure that the first such report is accompanied by the Agency's annual report commencing in 1992.

3.3 Direct the Economic Development Chief to produce an annual report on the economic development program that includes, at a minimum, all actual expenditures by the Agency on economic development programs during the previous two years, the results of each economic development program and the coordination efforts between the Agency and other City departments providing economic development assistance in the City. The Agency should ensure that the first such report is accompanied by the Agency's annual report commencing in 1992.

In Section 4, we recommend that the Agency Executive Director:

4.1 Implement procedures that require staff to conduct biennial comprehensive evaluations of all Agency projects and direct staff to prepare summary project status reports for the Agency Commission, the Board of Supervisors and the general public.

4.2 Direct the Deputy Executive Director for Finance to standardize the presentation of the annual work program budget, including an analysis of the previous year's project accomplishments with the stated goals for that year and five year budget projections.

4.3 Direct the Deputy Executive Director for Finance to evaluate automated project management programs and to present a report to the Agency Commission detailing whether such programs would increase the efficiency of Agency project management procedures.

In Section 5, we recommend that the Agency Commission:

5.1 Based on staff recommendations, discuss and approve an implementation plan for the economic development program.

5.2 Approve, either as part of the implementation plan or as a separate document, a statement on Agency policy for pursuing and funding economic development projects outside of project areas.

5.3 Not approve any additional economic development contracts until the implementation plan has been adopted and MOBED has developed annual goals and objectives for the City's economic development program.

We recommend that the Director of the Mayor's Office of Business and Economic Development:

5.4 Adopt procedures for the implementation of annual goals and objectives for the City's economic development program and how the resources of the Agency shall be utilized to meet those goals.

We recommend that the Director of the Mayor's Office of Housing and Community Development :

5.5 Submit a report as part of future Community Development Block Grant legislation that evaluates the workings of the Memorandum of Understanding signed by MOHCD, MOBED and the Agency regarding economic development program income.

We recommend that the Board of Supervisors:

5.6 Not allocate additional funds for economic development programs until the Board of Supervisors has received and reviewed a copy of an implementation plan approved by the Agency Commission and a statement of City goals and objectives for economic development programs developed by MOBED outlining how the Agency's resources will be utilized to meet those goals.

In Section 6, we recommend that in order to obtain independent evaluations of the Agency, the Board of Supervisors should retain, through the use of Agency funds, a consultant for:

6.1 A classification study as recommended in the Controller's audit that would include an evaluation of whether comparable City classifications exist for senior positions currently pegged to the salary of the Executive Director.

6.2 A strategic plan as recommended in the Controller's audit report that would include an evaluation of how the Agency would reduce professional staff over the next three to five years and which functional units would be combined to increase operational efficiency, if the Agency assumes no new projects.

6.3 A review of the work responsibilities of all Executive Secretary positions located in non-executive offices, for purposes of reclassifying downward these positions to either Executive Secretary I or Secretary II.

We recommend that the Board of Supervisors:

6.4 Reduce Agency clerical staffing levels by eight positions.

In Section 7, we recommend that the Agency Executive Director:

7.1 Direct the Administrative Services Manager to evaluate the Records Retention Program and prepare a report for Agency Commission consideration by May 1, 1992. The report should review the records retention policy, record retrieval, the potential for using computers for document storage and current mail processing procedures.

7.2 Direct the Administrative Services Manager to prepare and issue a Request for Proposal for microfilming documents and present to the Agency Commission by August 1, 1992 a report detailing the potential cost and staff savings if the contract is awarded.

We recommend that the Agency Commission:

7.3 Review both staff reports and adopt changes, as appropriate, to the Records Retention Program and if significant cost savings result, eliminate two Central Records staff positions and contract for document microfilming.

We recommend that the Agency Commission request the City Attorney to:

7.4 Review the list of documents drafted by Agency staff that are considered essential for legal purposes and present comments to the Agency Commission.

We recommend that the Board of Supervisors:

7.5 Place on reserve funds for two Central Records positions for the period August 1992 through June 1993. These funds should not be released unless the Agency can satisfactorily document that contracting for document microfilming would not result in significant savings.

In addition to strengthening the overall efficiency and effectiveness of the Agency's management and operations, the proper implementation of the recommendations contained in this report would result in net estimated reduced expenditures to the City of $350,000 annually. The estimated one-time costs of the studies recommended in Section 6 of this report would be no more than $155,000. If the Board of Supervisors were to approve a pay-as-you-go approach for Agency funding, then the savings to the City could be as high as $31 million in 1991-92 dollars over the next 40 years.

Staff at the Redevelopment Agency and the Mayor's Office of Business and Economic Development have had the opportunity to review and comment on this report. The written response from the Executive Director of the San Francisco Redevelopment Agency is attached to our report beginning on page 101.

While the written response of the Agency's Executive Director appears faintly positive, we believe that this approach is an attempt to minimize the significance of our most important findings and recommendations. This appears to be especially true with regard to the need we have identified for the Agency to greatly improve fiscal and program accountability to the Board of Supervisors and the issue of independent reviews of management classifications and salaries.

Regarding our finding that the Agency makes budgetary changes in violation of State Health and Safety Code Section 33606, the Executive Director states:

> "We do, however, disagree with the Budget Analyst's finding that the Agency has modified its budget in any way which violates the spirit or letter of Redevelopment law or the budget resolutions approving the annual budgets. The bulk of the data gathered by the Budget Analyst does indicate that the expenditure budgets are frequently reduced from their initial levels due to revenue constraints which occur during a fiscal year. We have not overspent our budget. These changes are consistent with sound fiscal management since they are necessary to prevent overexpenditure and are analogous to similar changes made in the City budget by the Controller."

In the first place, the Agency <u>has made increases</u> to individual projects without approval of the Board of Supervisors. However our main point is <u>not</u> that the Agency budget has been overspent, but rather that the Agency is reallocating its budget, whether upward or downward, continuously, and sometimes immediately, after their budget has been approved by the Board of Supervisors.

Our "principal recommendation" in this section, according to the Executive Director which he concurs with, is that "...the Agency provide additional information to the Board..." This distorts the thrust of our recommendations for this section of the report. We believe that the Agency is not sufficiently fiscally accountable to the Board of Supervisors and that specific <u>procedures</u> need to be implemented to ensure greater accountability. These procedures should include (a) requiring the Agency to request approval from the Board of Supervisors of any transfer in project area accounts in excess of 10 percent of the annual budget amount for the project as originally approved by the Board of Supervisors, (b) requiring the Agency to submit quarterly reports (as required by the Administrative Code) that detail revenues and expenditures, and (c) including more detailed data as part of the Agency's annual budget request. Additionally Board of Supervisors approval should be obtained for any additional positions created during the fiscal year. Again, our recommendations are designed to

significantly increase Agency fiscal accountability; not to simply result in more information being presented to the Board of Supervisors.

The Executive Director's statement that "The administration of the budget has been entirely consistent with the rule suggested by the Budget Analyst that expenditures and revenues not exceed 10% of the amounts budgeted" is misleading because there are clearly examples of where this has occurred. As shown in Table 6 on page 24 of this report, there are examples where the budgeted amounts approved by the Board of Supervisors have been increased by more than 10 percent through Agency budget revisions. Our analysis shows (as documented in Table 6) that over 25 percent of the revisions to project budgets have been upward.

Regarding our finding in the area of Economic Development, we do acknowledge that the Agency has made considerable achievements in this area. However, the Executive Director disagrees with our recommendations that the Board of Supervisors not approve any additional funds for Agency economic development programs and that the Agency Commission should not approve any additional economic development contracts until a comprehensive implementation plan is submitted to the Board and until the Mayor's Office establishes City-wide goals and objectives. We believe that it would be in the overall best interests of the City for the Agency Commission to temporarily suspend its program until the Mayor's Office has established such goals and objectives, especially since a new administration has taken office.

Regarding our finding pertaining to the Agency's secretarial and clerical staff, the Executive Director states:

> "On the issue of clerical staffing, the comparison to other City departments does not take into account the clerical staff that is assigned to functions that are centralized in the City structure. Examples of the latter include all the clerical staff of the City Controller's office, Civil Service, Purchasing, Mail and Reproduction Center.
>
> We believe that it is more relevant to use the Budget Analyst's comparison to other redevelopment agencies around the State. This comparison shows that clerical staffing in other redevelopment agencies is nearly identical to that of San Francisco's (28.9% to 29.6% as a percentage of total staff). Nevertheless, the Agency is willing to conduct a clerical/secretarial workload evaluation. And, while some reduction in positions may be possible, we do not believe that clerical staff can be reduced by eight positions (a 25% reduction from current staffing levels and 23% below that of other redevelopment agencies) without seriously impairing the ability of the Agency to function."

Comparisons notwithstanding, we believe it is totally inappropriate that the percentage of agency clerical staff and secretarial staff to total staff is approximately 72 percent greater than the size of clerical and secretarial staff for similar City departments. Agency clerical staff who perform clerical tasks which the Executive Director states are "assigned to functions that are centralized in the City structure" only account for a small number of Agency clerical staff. Such centralized functions would not account for the 72 percent difference in staffing levels.

As previously noted, while the agency has implemented a voice mail answering system and while 79 percent of the professional staff have personal computers, the Agency's percentage of clerical staff to total staff has increased every year since 1986. 58 percent of Agency secretarial staff are classified as "Executive Secretaries." The 11 Executive Secretaries in the Agency are exceeded only by one department in the entire City, the Department of Public Works which has 14 Executive Secretaries. Whereas the Agency has 108 full time authorized positions, the Department of Public Works has 1,868 full time authorized positions. We reiterate our recommendation that clerical staffing levels should be reduced by eight positions.

The Executive Director states:

> "Secondly, the nature of the Agency's business requires that it have fairly senior levels of staff in a wide range of professional disciplines (e.g. architects; engineers; financial, real estate, economic development, and housing professionals; attorneys; planners and project managers). For this reason it is clear that there is not another City department "similar" to the Agency in this regard. The Agency is not a composite of the Port, the Mayor's Office and various engineering bureaus. These departments have a far larger proportion of lower paid classifications than the Agency.
>
> The Budget Analyst has not compared senior staff salaries to other redevelopment agencies in the State. Such an "apples to apples" comparison, we believe, would be more reasonable and valid. The data on salaries of redevelopment staff around the State are available.
>
> The Agency is willing to contract for a salary and classification survey, if adequate funding is made available, to determine whether the salary levels are appropriate. This salary and classification survey should also address the Budget Analyst's issue of the level of executive secretarial positions within the Agency, rather than perform a separate study."

Our point in stating that senior agency staff should have their salary and classification reviewed as part of an outside independent classification study, is that Agency policy states that such positions should be tied to City classifications. We believe that our recommendation is appropriate irrespective of the salaries

paid by other redevelopment agencies, as suggested by the Executive Director. The existing classification and salary structure has resulted from Agency management making decisions that affect their own compensation. An outside study would determine whether the current policy, which has resulted in approximately 12 percent of Agency staff receiving compensation in excess of $70,000 annually, is correct and should be continued. Therefore, we believe that our recommendations to have independent evaluations of the Agency's (a) senior position classifications, (b) strategic plan and (c) the responsibilities of the Executive Secretaries, conducted under the jurisdiction of the Board of Supervisors, should be implemented. We have no objection to the Executive Director's comment that the Agency should have a central role in managing and developing the strategic plan. However, we continue to recommend that such a plan be conducted under the jurisdiction of the Board of Supervisors.

As the Executive Director has responded, we have recommended that a strategic plan should be undertaken which would include an evaluation as to how the Agency would reduce professional staff, if no new redevelopment agency projects are authorized. By this recommendation, we are not "prejudging" the results of the strategic plan, as the Executive Director states. Our recommendation is based on the Agency's own projections of a sharp decline in the need for professional staff by the year 2000.

Furthermore, we disagree with the Agency's statement that the recommended management "...salary and classification survey should also address the Budget Analyst's issue of the level of executive secretarial positions within the Agency, rather than perform a separate study." A study of management classification and salaries is of vastly different scope, requiring different expertise, than a workload, productivity and organizational review such as we recommend with regard to the excessive number of Executive Secretaries found in the Agency. We further recommend that the procurement and oversight of such studies be conducted under the jurisdiction of the Board of Supervisors, which is independent of the Agency's management, in order to assure objectivity.

Throughout the course of this management audit we received the full cooperation of the staff of the Redevelopment Agency. Without their assistance, our task would have been much more difficult.

Respectfully submitted,

Harvey M. Rose
Budget Analyst

cc: President Ward
Supervisor Achtenberg
Supervisor Alioto
Supervisor Britt
Supervisor Gonzalez
Supervisor Hallinan
Supervisor Hsieh
Supervisor Kennedy
Supervisor Migden
Supervisor Shelley
Mayor Jordan
Clerk of the Board
Chief Administrative Officer
Controller
Kent Sims
Adelle Foley
Ted Lakey
Edward Helfeld
Robert Gamble

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INTRODUCTION

Background

At the request of the San Francisco Board of Supervisors, the Budget Analyst has conducted a management audit of the San Francisco Redevelopment Agency. An audit of the Agency was recently conducted by the Controller's Internal Audits Division. As directed by the Board of Supervisors, the Budget Analyst's audit was of limited scope and concentrated on areas of operation that were not reviewed in the Controller's audit. The scope of the Budget Analyst's management audit included:

- A review of Agency budgeting procedures;
- An evaluation of Agency project management procedures and controls;
- An analysis of the Agency's economic development program;
- An analysis of the Agency's purchasing procedures and use of professional services contracts and consultants; and,
- An assessment of some limited personnel, salary and management issues.

Audit Methodology

Our audit included interviews with Agency staff having responsibility for the examined areas of operation. In addition, input was obtained from staff of the Mayor's Office of Business and Economic Development and the Mayor's Office of Housing and Community Development for the section concerning economic development.

To conduct this management audit, we reviewed the State Community Redevelopment Law (Health & Safety Code, § 33000 et sec.); the Charter and Administrative Code sections pertaining to the Redevelopment Agency; Agency organization charts and workload statistics; the Agency's mission and goal statement; and Agency budgets, administrative procedures, job descriptions and other descriptive documents.

Field work was conducted over a three month period from September through November 1991. Upon completion of the draft report, an exit conference was held with Agency staff regarding report content. The Agency was invited to submit a formal response to this report which has been attached at the end of this report.

Survey of Other Municipalities

For comparative purposes, a survey of other redevelopment agencies in the 10 most populous cities in the State was conducted. Responses were received from all municipalities except one. This survey included organization, staffing, budgeting, and project management issues. As appropriate, information obtained from survey responses is referenced throughout the report. A copy of the survey instrument is contained in Appendix A and a complete summary of all survey responses is contained in Appendix B.

Acknowledgements

The San Francisco Redevelopment Agency's management and staff assisted our efforts in this management audit and provided the information to conduct our analyses. We especially wish to acknowledge the assistance of Robert Gamble, Deputy Executive Director, Finance; Jim Nybakken, Administrative Services Officer; and Mario Menchini, Financial Analyst.

History and Background of the San Francisco Redevelopment Agency

Agency Creation

The authority for jurisdictions to establish a redevelopment agency is granted by the Community Redevelopment Law of the State of California (Health and Safety Code, § 33000 et seq.). Established redevelopment agencies have significant authority including the ability to use tax increment financing. Redevelopment agencies, can acquire real estate through eminent domain, and relocate individuals and businesses displaced by redevelopment agency activity. These are powers acquired under State law that have been "lent" to local officials to carry out the provisions of the State Community Redevelopment Law; these are not inherent powers of local officials.

The San Francisco Redevelopment Agency was established by the Board of Supervisors in 1948. The Agency is an entity legally separate from the City and County of San Francisco but exists solely for the purpose of performing certain redevelopment functions exclusively for and by authorization of the City. The Agency was organized with an independent commission which currently has seven members appointed by the Mayor and approved by the Board of Supervisors.

Since the Agency began operations, 12 redevelopment plans have been approved by the Board of Supervisors. The first plan approved was for Diamond Heights in 1955 and the most recent was the South of Market Earthquake Recovery Plan in 1990. Five of these projects have been completed, project funding was never allocated for one project and six are in various stages of completion. Information on each project area is provided in the table below.

Table 1

Summary of Redevelopment Project Areas Approved by the Board of Supervisors

Project	Board of Supervisors Redev. Plan Approval	Date of Project Completion
Diamond Heights	1955	1978
Western Addition A-1	1956	1973
Golden Gateway	1959	1981
Western Addition A-2	1964	2000
Chinese Cultural & Trade Cntr.	1965	1971
Yerba Buena Center	1966	1994
Hunters Point	1969	1995
India Basin Ind. Park	1969	1995
Stockton/Sacramento	1974	1981
Bayview Industrial Triangle	1980	(a)
Rincon Point - South Beach	1980	1998
South of Market	1990	2000

(a) Project funding never allocated.

A map of San Francisco showing redevelopment project area boundaries (with the exception of the South of Market project area) is shown in Appendix C.

Organization

The Agency is administered by an Executive Director who is appointed by the Agency Commission. While there are small staffing units responsible for project direction and coordination, the Agency is basically organized along functional lines. For example, architecture, planning, and other technical units are organized separately and provide services to the project units as necessary in contrast to professional staff being directly assigned to a project unit.

Direct management authority over agency operations is provided by the Executive Director, the Senior Deputy Executive Director and the Deputy Executive Director, Finance. Generally, the Executive Director has project administrative units reporting to him as well as legal, economic development and housing services. The Senior Deputy Executive Director has administrative, technical and community service units under his authority and the Deputy Executive Director, Finance has finance, budget, data processing and one project unit reporting to him. An agency organizational chart is shown on the following page.

San Francisco Redevelopment Agency
Organization Chart

FY 1991-92 Approved Staffing of 108 Positions

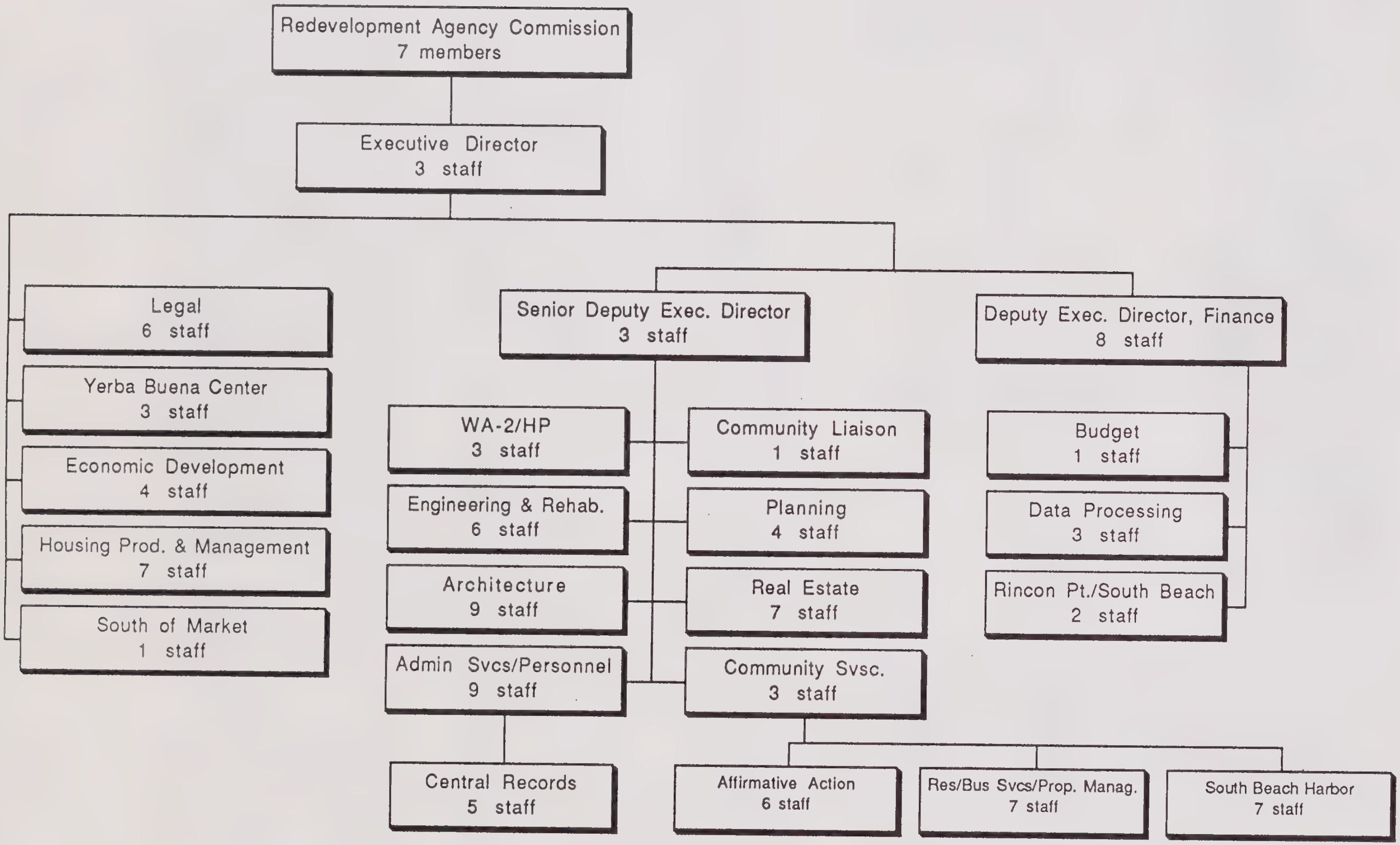

Exhibit I

Governance

The State Community Redevelopment Law provides three options for the governance of a redevelopment agency. They are:

- The legislative body can declare itself the governing board of the redevelopment agency;

- The legislative body can appoint a separate, independent governing board; and,

- The legislative body can establish a community development commission for the purpose of governing its redevelopment agency and housing authority with a single governing board. Under this option, the legislative body can either appoint itself as the commission or appoint a separate board.

As noted above, San Francisco uses the second option and the Agency is governed by a separately established seven member Redevelopment Agency Commission. The Agency Commission approves all policy decisions and has authority to approve the hiring of senior staff, approve most Agency expenditures and approve all agreements, contracts, grants and loans entered into by the Agency.

Under the provisions of the Health and Safety Code, even though the San Francisco Board of Supervisors has established an independent agency commission, the Board of Supervisors as the legislative body still retains some responsibilities for approving Agency operations and activities. These include:

- Approval of all areas to be surveyed;

- Approval of each redevelopment plan;

- Approval of any changes to redevelopment plans as originally presented; and,

- Approval of the annual Agency program budget and any amendments to that budget.

The Agency's annual program budget is reviewed by the Board of Supervisors at the same time that the annual budget of other City departments are reviewed.

<u>Comparison With Other Jurisdictions</u>

In California, unlike San Francisco, over 96 percent of the approximately 350 redevelopment agencies in the State have the city council of the city serving as the redevelopment agency without the establishment of a separate agency commission. Among the ten largest cities in California, the city council serves as the redevelopment agency in eight cities and only in Los Angeles and Long Beach (in addition to San Francisco) have independent agency commissions been

established. The majority of the largest cities also have the agency operating as a city department. This information is summarized in the table below.

Table 2

Redevelopment Agency Governance and Organization in Largest California Cities

City(ies)	Form of Governance & Organization
Anaheim, Fresno, Oakland Santa Ana, Riverside	City Council serves as redevelopment agency and agency operates as a city department.
San Diego	City Council serves as redevelopment agency with some functions provided by a city department and some by city-managed non-profit organizations.
San Jose	City Council serves as redevelopment agency and the agency is an independent organization.
Long Beach, Los Angeles, **San Francisco**	City Council has appointed a governing board and the agency is an independent organization.
Sacramento	City Council and Board of Supervisors appoint a community development commission.

Agency Budget

The Agency budget for FY 1991-92 totalled $131,848,000 with 108 authorized positions. The budget is supported directly with $104,948,000 in revenues, the majority coming from property sales of Agency property, and the balance of $26,900,000 provided from the sale of Agency tax increment bonds. A discussion of tax increment financing is provided later in this section and Agency budget procedures are discussed in Section 2. The Agency's approved FY 1991-92 budget is presented in the table below.

Table 3

Redevelopment Agency Approved
FY 1991-92 Budget

Revenues	
Property Sales	$ 66,495,000
Rental/Leases	2,404,000
Prior Year Earnings/Savings	9,119,000
Debt Proceeds	21,150,000
Developer Continuation	125,000
Tax Increment Proceeds: 1989/90 and 1990/91 Bonds	5,655,000
TOTAL	$104,948,000
Expenditures	
Legal Services	$ 525,000
Planning	1,417,000
Acquisition	4,150,000
Public Improvements	60,930,000
Architecture and Engineering Design	4,776,000
Construction Monitoring	1,083,000
Relocation	482,000
Property Maintenance	856,000
Housing Assistance	3,789,000
City-Wide Housing Fund	8,019,000
Employment Business Development	1,046,000
Small Business Development	6,804,000
Debt Service	10,837,000
Restricted Funds	18,382,000
Agency Personnel Costs	7,148,000
Administrative Overhead Costs	1,604,000
TOTAL	$131,848,000
1991-92 Tax Increment Bond Requirement to Balance Proposed Expenditures	$26,900,000

Agency Mission and Goals

Redevelopment agencies are established under State law to eliminate blight within jurisdictions. As stated in the 1987 Agency's Fact Book, the purpose of the Agency is:

"To improve the environment of the City and create better urban living conditions through the removal of blight. The Agency only operates in areas

designated by the Board of Supervisors and achieves its objectives by clearing conditions of blight, retaining that which is structurally sound and compatible, replanning and attracting developers with good urban design to rebuild."

In fulfilling this mandate to remove blighted conditions, the Agency conducted activities that altered a number of City neighborhoods and resulted in the displacement of a significant number of residents and businesses. Such massive dislocations, although they no longer occur on the same scale, have left a legacy of distrust in certain areas of the City that is difficult for the Agency to overcome. For example, one of the reasons why implementation of the Planning Department's master plan for the South Bayshore area has been postponed is because of concern over possible redevelopment activities.

During the 1970's and 1980's there were additions to the State Community Redevelopment Law that resulted in an increased emphasis on housing and economic development by redevelopment agencies. In 1989 the Agency formally recognized these changes in its own operations by adopting a totally new mission statement that was formally approved by the Board of Supervisors. This mission statement marked a change of direction for the Agency:

> "[The Agency] is entering a new period with the proposed use of tax increment funding. The new period marks a break with the past role of the Agency, in which it engaged in redevelopment programs as a semi-independent agency, concerned mainly with the completion of plans it devised only in part of the City.
>
> The Agency's mission has evolved toward a comprehensive view of the City as a whole and cooperation with other City agencies and community and neighborhood groups aimed at solving citywide housing and development problems defined by elected officials and citizens of San Francisco."

The Agency mission statement is included as Appendix D. To implement this new mission statement, Agency's activities have been focused primarily in three areas:

- The completion of all existing project areas on time and within specified budgets;
- The financing of new housing within redevelopment project areas and city-wide; and,
- Increasing economic opportunities for City residents.

Future Activities for the Agency

A fourth area of current operation for the Agency is participating in various planning projects throughout the City in cooperation with other City departments. At this time, the Agency is involved in planning efforts in the South

Bayshore area with the Planning Department and, at the request of the Mayor, is leading planning efforts for the Hunters Point Naval Shipyard.

Activities along these lines - participating in efforts with other City departments - will probably define Agency operations into the future, especially as current project area plans are completed. Two approved survey areas - Fisherman's Wharf and Bernal Heights - which have been considered as potential project areas do not seem likely to proceed at this time. Agency officials consider the proposed Mission Bay development and the use of the Naval Shipyard as areas within the City that could, if requested by City officials, become the focus of Agency activities in the future.

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SECTION 1: AGENCY FINANCING

- SINCE FY 1989-90, THE AGENCY HAS BEEN USING TAX INCREMENT MONIES TO REPAY TAX INCREMENT-BACKED BONDS THAT ARE ISSUED TO FINANCE EXPECTED GAPS IN THE AGENCY'S BUDGET, INCLUDING ADMINISTRATIVE AND PERSONNEL COSTS. TO DATE, THE AGENCY HAS ISSUED APPROXIMATELY $89,095,036 IN BONDS THAT WILL REQUIRE APPROXIMATELY $7,179,849 ANNUALLY IN TAX INCREMENT REVENUES TO REPAY OVER THE NEXT 30 YEARS. TOTAL ESTIMATED BOND REQUIREMENTS TO COMPLETE EXISTING PROJECTS THROUGH THE YEAR 2000 IN NOMINAL DOLLARS IS $217,195,551 AND TOTAL TAX INCREMENT MONIES NEEDED TO REPAY THESE BONDS OVER A 30 YEAR PERIOD IN NOMINAL DOLLAR IS $524,872,666. IN DISCOUNTED 1991-92 DOLLARS, THE TOTAL ESTIMATED BOND NEEDS THROUGH THE YEAR 2000 VARIES FROM $118 MILLION TO $139 MILLION DEPENDING ON THE DISCOUNT RATE USED. TAX INCREMENT MONIES NEEDED TO REPAY THE BONDS OVER A 30 YEAR PERIOD VARIES FROM $118 MILLION TO $170 MILLION.

- THE AGENCY USES THE BOND FUNDING METHOD ALTHOUGH THERE ARE SUFFICIENT TAX INCREMENT REVENUES TO FUND THE DIFFERENCE BETWEEN BUDGETED REVENUES AND PROPOSED EXPENDITURES. IT WOULD BE LESS EXPENSIVE IN THE LONG RUN TO USE TAX INCREMENT REVENUES TO FUND REDEVELOPMENT ACTIVITIES.

- THE BOARD OF SUPERVISORS MAY WANT TO CONSIDER PAY-AS-YOU-GO AS A POLICY OPTION WHEN THEY REVIEW FUTURE TAX INCREMENT-BACKED BOND ISSUE REQUESTS. BECAUSE FUNDING ADMINISTRATIVE AND PERSONNEL COSTS WITH BOND FUNDS IS RELATIVELY INEFFICIENT THE BOARD OF SUPERVISORS MAY ALSO WISH TO CONSIDER USING AVAILABLE TAX INCREMENT FUNDS FOR ADMINISTRATIVE AND PERSONNEL COSTS.

Tax Increment Financing

Tax increment financing (TIF) is authorized in at least 24 states. In 1952 California became the first state to adopt a TIF statute. Local governments use tax increment financing to fund redevelopment projects. Essentially, when a redevelopment project area has been defined, the property tax revenue amount is frozen and any increases in property tax revenue in that project area are considered attributable to redevelopment activities and are dedicated to financing development-related costs in that area. Money in the tax increment fund is usually used to repay tax increment backed bonds that are issued to

finance redevelopment activities.[1]

Typically, TIF-backed bonds are sold by redevelopment agencies to provide financing for the purchase and preparation of land in the redevelopment project area, including preparing the land for industrial, commercial, or residential development, and for the installation of public infrastructure, such as streets, lights, water and sewer lines, curbs, gutters, and landscaping. Once prepared, the land is then sold to developers at a price that is often below the local government's cost of preparing the site, a technique known as land write-down. These pre-development costs, including write-downs, are recouped through the tax increment fund over the life of the project. In short, tax increment financing lures private investment by providing a site ready for construction at a subsidized price.

Tax Increment Financing in San Francisco

Historically, the Agency received the majority of its funding from the Federal government through Community Development Block Grant funds. However, because of drastic cuts in federal funding to local redevelopment agencies for urban renewal projects, the San Francisco Redevelopment Agency began using tax increment monies in FY 1985-86 to augment redevelopment activities and in FY 1989-90 to repay tax increment-backed bonds. Typically, the Agency develops a budget for redevelopment activities, including administrative functions, and determines potential revenue sources for the year (such as anticipated land sales, lease revenue and interest income). The Agency requests authorization from the Board of Supervisors to issue tax increment-backed bonds to fund the difference between expected revenues and proposed expenditures. The Agency may request additional tax increment revenues each year only up to the amount of indebtedness incurred by the Agency that year. The Mayor and the Board of Supervisors authorize the transfer of tax increment revenues through the approval of the Indebtedness Limitation Agreement. The Indebtedness Limitation Agreement is a legal agreement developed by the City to limit the amount of tax increment revenues the Agency is able to claim each year. Such indebtedness accumulates from year to year. For example, the Agency sold $39,199,217 in tax increment-backed bonds in FY 1989-90, $22,995,819 in FY 1990-91, and $26,900,000 in FY 1991-92 for a total of $89,095,036 in tax increment-backed bonds sold by the Redevelopment Agency to date. In addition, the Agency is issuing $30 million in Agency General Obligation bonds in FY 1991-92 for public improvements in Yerba Buena Center that will be repaid with tax increment revenues for a minimum of two years (1992-93 and 1993-94) and the remaining balance will be paid with proceeds from land sales in the Yerba Buena Center. As a result, the Agency has issued, to date, approximately $119,095,036 in bonds ($89,095,036 in tax increment backed bonds plus $30,000,000 in Agency General Obligation bonds) that will require approximately $9,597,441 annually in tax increment revenues to repay the bonds through, at least, FY 1993-94 and will require $7,179,849 in tax increment

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[1] A Revenue Guide for Local Government, by Robert Bland was used to discuss the background of tax increment financing.

revenues for each year thereafter until the 1989-90 bond expires in FY 2019-2020. As additional bonds are issued, the annual payment required by the Agency will increase.

Projected and actual bond and tax increment revenue needs, as developed by the Agency through the year 2000, are displayed in the tables and the accompanying graphs on pages 15 and 16. These funding needs have been discounted to 1991-92 present value dollars using five, six and seven percent discount rates to demonstrate the present value[2] of the stream of funds. Three discount rates were chosen to provide three possible scenarios of the discount rate. Five and six percent are used as discount rates equal to the rate of inflation and seven percent is used as a discount rate to equal the bond interest rate. The interest rate of tax increment bonds has been approximately seven percent for the past three years. The inflation rate has averaged five percent over the past twenty years. Discounting monies by the inflation rate reflects the cost to the City of the use of funds. The discount rate reflects the opportunity cost of using funds for one project or program instead of another. As such, since the City would use tax increment monies to fund City programs and the City's expenditures increase approximately by the rate of inflation, the inflation rate would be the appropriate discount rate to use. The interest rate would be the appropriate discount rate if the monies were viewed as a resource withdrawal from private investment. However, there is little consensus among financial analysts regarding the appropriate discount rate.

Table 4 on the following page demonstrates the various present value estimates using three discount rates. Total estimated bond needs through the year 2000 in nominal dollars[3] is $217,105,551 and total tax increment monies needed to repay the bonds over a 30-year period in nominal dollars is $524,872,666. These projections assume that there will be <u>no</u> new project areas within the next ten years and that the existing project areas will be completed as originally scheduled (all of the existing project areas are expected to be completed by the year 2005). In present value 1991-92 dollars, the total estimated <u>bond needs</u> through the year 2000 ranges from $118,091,035 with a seven percent discount rate to $139,948,174 with a five percent discount rate, a difference of approximately $21.8 million. In 1991-92 dollars, the tax increment monies needed to <u>repay the bonds</u> over a 30-year period ranges from $118,091,035 with a seven percent discount rate to $170,547,383 with a five percent discount rate, a difference of approximately $52 million. The difference between bond requirements and tax increment payments also varies from $0 to $30,599,209.

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[2] Discounting monies to present value is a method for converting future and/or past dollar amounts to current values, taking into account inflation and/or interest rates.

[3] Nominal dollars are dollars at face value at the time they are exchanged, and are not present value dollars.

Table 4

Nominal and Discounted Actual and Projected Tax Increment Bond Requirements and Nominal and Discounted Actual and Projected Tax Increment Payments (Present Value in 1991-92 Dollars)

	Nominal	Present Value @ 5%	Present Value @ 6%	Present Value @ 7%
Bond Requirements (Through the year 2000)	$217,105,551	$139,948,174	$128,504,442	$118,091,035
Tax Increment Payments (Over a 30 year period)	524,872,666	170,547,383	140,224,446	118,091,035
Difference	$307,767,115	$30,599,209	$11,720,004	$0

As a result, the cost to the City in using bond financing versus pay-as-you-go depends on the discount rate used to evaluate the future value of the stream of funds. Nonetheless, if the inflation rate, or five percent, is used as the discount rate, there is a minimum cost to the total City of approximately $952,164 and using the bond interest rate there is a maximum cost of $1,128,398 in present value 1991-92 dollars for transaction costs to finance redevelopment activities through the issuance of bonds instead of on a cash basis through the year 2000.

Table 5 on the following page demonstrates actual and projected tax increment revenue payments needed to repay tax increment backed bonds and total projected tax increment accruing to the City through the year 2000. The estimated total tax increment revenue needed to pay back the tax increment bonds through the year 2000 are projected to comprise approximately 30 percent of total tax increment revenues accruing to the City. In other words, tax increment sources are projected to generate approximately $448.3 million of revenues while tax increment payments are projected to cost approximately $134.8 million through the year 2000. The Agency is not nor does it intend to claim all of the possible tax increment revenues that have accrued through its activities. However, these estimates are based on 1990 projections made by Agency staff and the actual needed tax increment funds to complete Agency projects will vary.

These tax increment revenues would otherwise be deposited into the City's General Fund for expenditure on other programs. The total unneeded funds, which were approximately $25,010,334 in FY 1990-91, are retained by the General Fund and the Agency has no claim on these funds past the year in which they accrue. As Table 5 shows, there will continue to be a significant accumulation of tax increment revenues to the General Fund.

Table 5

Actual and Projected Tax Increment Bond Needs FY 1989-90 through FY 1999-2000

	1989-90a	1990-91a	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	Cumulative
Rincon Point-S. Beach				$6,599,000	$17,739,000	$13,584,000	$0	$6,109,000	$980,000	$0	$0	$45,011,000
So of Market				$6,098,000	$6,531,000	$6,686,000	$6,611,000	$5,586,000	$5,355,000	$4,200,000	$3,972,000	$45,039,000
India Basin				$130,000	$110,000	$110,000	$0	$0	$0	$0	$0	$350,000
Hunters Point				$234,000	$508,000	$254,000	$0	$0	$0	$0	$0	$996,000
Western Addition (A-2)				$3,090,000	$1,656,000	$3,050,000	$3,086,000	$3,177,000	$499,000	$153,000	$153,000	$14,864,000
Yerba Buena				$20,000,000								$20,000,000
Subtotal	$39,199,217	$22,995,819	$26,900,000	$36,151,000	$26,544,000	$23,684,000	$9,697,000	$14,872,000	$6,834,000	$4,353,000	$4,125,000	$215,355,036
Bond Issuance Costs				$501,414	$368,165	$327,786	$134,497	$206,275	$94,788	$60,376	$57,214	$1,750,515
PV 91-92 Dollars @ 5%				$477,537	$333,937	$283,154	$110,651	$161,622	$70,732	$42,908	$38,725	$1,128,398
PV 91-92 Dollars @ 6%				$473,032	$327,666	$275,215	$106,534	$154,141	$66,822	$40,153	$35,897	$1,036,127
PV 91-92 Dollars @7%				$468,611	$321,570	$267,571	$102,607	$147,071	$63,161	$37,599	$33,299	$952,164
Total	$39,199,217	$22,995,819	$26,900,000	$36,652,414	$26,912,165	$24,011,786	$9,831,497	$15,078,275	$6,928,788	$4,413,376	$4,182,214	$217,105,551
Cumulative	$39,199,217	$62,195,036	$89,095,036	$125,747,450	$152,659,615	$176,671,401	$186,502,898	$201,581,173	$208,509,961	$212,923,337	$217,105,551	
PV 91-92 Dollars @ 5%	$43,217,137	$24,145,610	$26,900,000	$34,907,061	$24,410,127	$20,742,284	$8,088,397	$11,814,223	$5,170,368	$3,136,504	$2,830,687	$139,948,174
PV 91-92 Dollars @ 6%	$44,044,240	$24,375,568	$26,900,000	$34,577,749	$23,951,731	$20,160,759	$7,787,466	$11,267,364	$4,884,522	$2,935,147	$2,623,973	$128,504,442
PV 91-92 Dollars @7%	$44,879,184	$24,605,526	$26,900,000	$34,254,593	$23,506,127	$19,600,770	$7,500,402	$10,750,602	$4,616,944	$2,748,429	$2,434,087	$118,091,035

Actual and Projected Tax Increment Payments FY 1989-90 through FY 1999-2000

	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	Cumulative
Annually	$3,158,924	$1,853,150	$2,167,774	$2,953,686	$2,168,755	$1,935,023	$792,285	$1,215,104	$558,366	$355,658	$337,030	$17,495,756
Cumulative Annually	$3,158,924	$5,012,074	$7,179,849	$10,133,535	$12,302,289	$14,237,313	$15,029,598	$16,244,702	$16,803,068	$17,158,726	$17,495,756	$17,495,756
Annual x 30 years	$94,767,718	$55,594,510	$65,033,228	$88,610,587	$65,062,638	$58,050,704	$23,768,550	$36,453,119	$16,750,983	$10,669,743	$10,110,888	$524,872,666
PV 91-92 Dollars (30 years @ 5%)	$53,537,845	$29,911,836	$28,946,325	$43,243,235	$30,239,523	$25,695,760	$10,019,991	$14,635,584	$6,405,107	$3,885,534	$3,506,685	$170,547,383
PV 91-92 Dollars (30 years @6%)	$48,856,436	$27,038,800	$25,919,177	$38,355,653	$26,568,655	$22,363,487	$8,638,311	$12,498,417	$5,418,196	$3,255,836	$2,910,663	$140,224,446
PV 91-92 Dollars (30 years @ 7%)	$44,879,184	$24,605,526	$26,900,000	$34,254,593	$23,506,127	$19,600,770	$7,500,402	$10,750,602	$4,616,944	$2,748,429	$2,434,087	$118,091,035

	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	Cumulative
TI Revenues	$29,569,000	$30,444,000	$31,865,000	$34,643,000	$37,822,000	$40,733,000	$43,705,000	$47,006,000	$49,596,000	$50,892,000	$51,994,000	$448,269,000
TI Payments	$3,158,924	$5,012,074	$7,179,849	$10,133,535	$12,302,289	$14,237,313	$15,029,598	$16,244,702	$16,803,068	$17,158,726	$17,495,756	$134,755,834
%(Payments/Revenues)	10.68%	16.46%	22.53%	29.25%	32.53%	34.95%	34.39%	34.56%	33.88%	33.72%	33.65%	30.06%

a=actual

Notes:

- Projected bond needs and tax increment revenues were developed by the Agency.
- Projected tax increment revenue payments to the Agency are based on seven percent interest of the bond need for each year.
- Present value amounts in 1991-92 dollars
- TI payments equal the amount of tax increment revenue the Agency intends to claim to repay tax increment bonds.
- TI revenues equal the total amount of tax increment revenue the Agency projects will accrue from the project areas.

Exhibit 2: Projected and Actual Cumulative Tax Increment Bond Requirements in Nominal Dollars, FY 1989-90 through 1999-2000

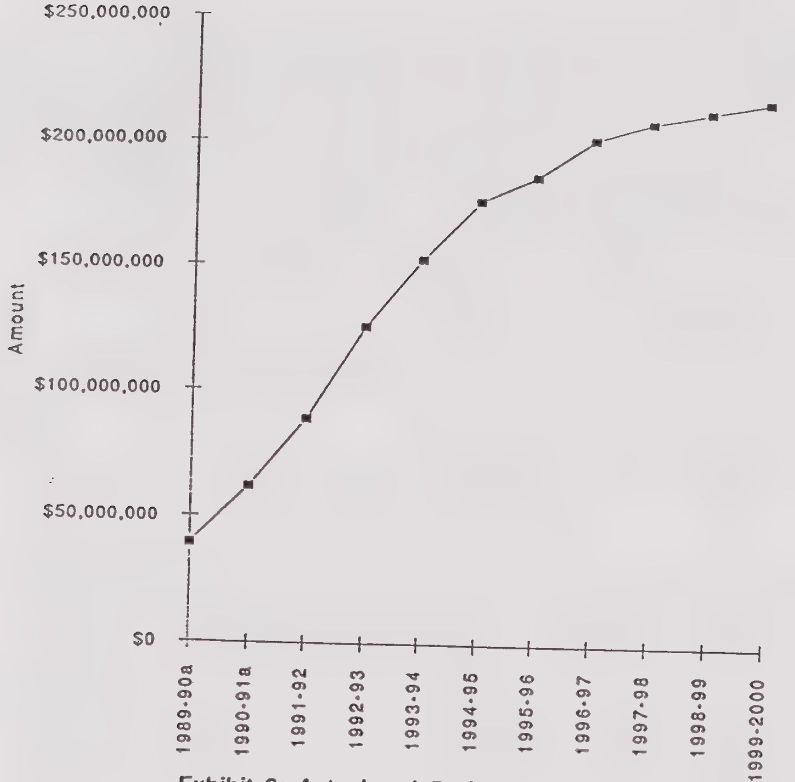
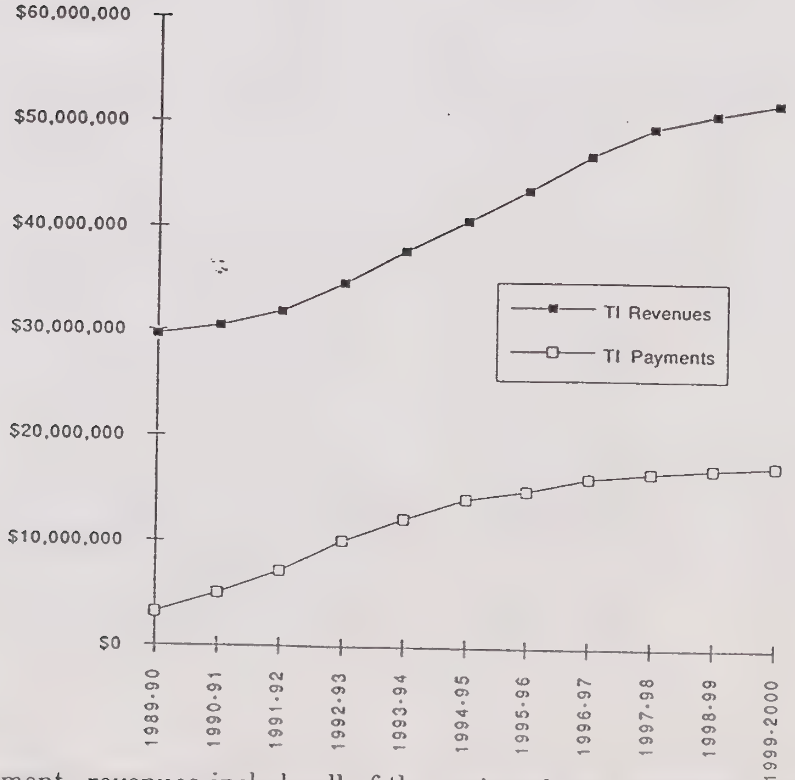


Exhibit 3: Actual and Projected Annual Tax Increment Revenues and Payments, FY 1989-90 through 1999-2000



Note:

- Tax increment revenues include all of the projected tax increment revenues that will accrue to the General Fund from the project areas.
- Tax increment payments are the tax increment revenues the Agency intends to claim to repay tax increment backed bonds.

Pay-As-You-Go Versus Long-Term Financing

Instead of funding part of the Agency's projects through TIF-backed bonds, the Agency could use all tax increment funds to finance its development activities. In some years, enough tax increment revenues exist to fund the balance of redevelopment activities. For example, as demonstrated on Table 5, from FY 1993-94 through FY 1999-2000 there is enough tax increment revenue to fund all of the project and administrative needs of the Agency without issuing tax increment-backed bonds. The benefit of borrowing or bond financing redevelopment projects is that the City does not have to use $20 to $30 million in General Fund monies to fund redevelopment activities in a given year but can stretch this payment over 30 years. In other words, in FY 1991-92, the City is "borrowing" approximately $25 million to fund other City programs ($26.9 million bond minus $1.883 million tax increment revenues to repay the bond). During difficult fiscal times, such as the recession the City is currently undergoing, a debt financing approach can help provide a buffer to the City.

On the other hand, the City is required to pay more in the long-run, primarily due to additional interest expenses. The difference between using a pay-as-you-go versus debt financing from 1989-90 to the year 2000 in nominal dollars is $307,767,115 ($524,872,666 needed tax increment revenues minus $217,105,551 bond needs - see Table 5). In contrast, in 1991-92 dollars, as noted above, the difference depends on the discount rate. Using a seven percent discount rate, or the interest rate on the bonds, the difference is zero and using a five percent discount rate or the average rate of inflation, the difference is approximately $30 million. However, at a minimum, there are costs associated with issuing bonds, such as bond counsel, underwriters, financial advisors and printing costs that can cost between 1.2 to 1.4 percent of the total bond amount. Based on bond requirements from FY 1992-93 through the year 2000, pay-as-you-go versus bond financing would save between $952,164 to $1,128,398 in present value 1991-92 dollars in transaction costs to bond finance redevelopment activities depending on the discount rate. In FY 1990-91, the issuance costs were approximately $321,941. These issuance costs are normally rolled into the total bond amount.

Selecting a pay-as-you-go method of funding, redevelopment activities would reduce the amount of property tax revenue otherwise available to the City's General Fund, by approximately $20 to $30 million annually[4]. Most redevelopment agencies in California are city agencies and property tax increment revenues would otherwise be claimed by the counties in which the cities are located. Therefore, the cities, not just the redevelopment agencies, stand to benefit from claiming all of the

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[4]The following is a percentage breakdown of the allocation of the City's property tax revenue:

San Francisco General Fund	87.5%
SF Community College District Fund	1.3
SF Unified School District	7.5
Bay Area Air Quality Management District	0.2
Bay Area Rapid Transit	3.5

tax increment revenues. As such, most of the other redevelopment agencies in California claim all of the possible tax increment revenues and have used tax-increment financing to a greater degree than San Francisco. And, because they are already claiming all of the tax increment revenues to repay bonds, a pay-as-you-go approach is not a feasible option, as it is for San Francisco. Because San Francisco is both a city and a county, the City itself has less incentive to capture all of the tax increment revenues for redevelopment purposes because the funds would otherwise be used for General Fund purposes. Nevertheless, because it would be less expensive in the long run to fund redevelopment activities on a cash basis, the Board of Supervisors may want to consider pay-as-you-go as a policy option when they review future tax increment-backed bond issue requests.

Another issue concerning Agency financing is debt financing current administrative expenses as opposed to debt financing capital projects. Currently, most of the Agency's personnel and administrative costs are funded from the annual tax increment bond issues. Because future generations will benefit from investments in infrastructure, it is rational to debt finance capital projects. However, debt financing administrative costs is relatively inefficient because the activities being funded have limited long-range benefits. Staff time and materials and supplies add to the value of capital projects, though not as directly as the building of the project. Based on our survey of redevelopment agencies in other jurisdictions, the majority of agencies either debt finance or use available tax increment revenues to pay for their administrative costs. In addition, many private sector companies debt finance capital or other investments including administrative expenses, that will have long term benefits. However, because of the tax increment surplus that accrues to the General Fund, the Board of Supervisors may wish to consider using available funds for administrative and personnel costs.

Conclusion

Since FY 1989-90, the Agency has been using tax increment monies to repay tax increment-backed bonds that are issued to finance expected gaps in the Agency's budget, including administrative and personnel costs. To date, the Agency has issued approximately $89,095,036 in bonds that will require approximately $7,179,849 annually in tax increment revenues to repay over the next 30 years. Total estimated bond requirements to complete existing projects through the year 2000 in nominal dollars is $217,105,551 and total tax increment monies needed to repay these bonds over a 30-year period in nominal dollars is $524,872,666. In discounted 1991-92 dollars, the total estimated bond needs through the year 2000 varies from $118 million to $139 million depending on the discount rate used. Tax increment monies needed to repay the bonds over a 30 year period varies from $118 million to $170 million, also depending on the discount rate used. These projections assume there will be no new project areas within the next ten years and that existing project areas will be completed as originally scheduled. Further, these projections were developed by the Agency in 1990 and will most likely change as unforeseen costs arise.

Instead of funding the Agency's projects through tax increment-backed bonds, the Agency could, theoretically, use all tax increment funds to finance its

redevelopment activities. Further, because the use of bond funds for administration and personnel costs is relatively inefficient, at a minimum, the Agency could use tax increment revenues to fund administrative and personnel costs. Because it would be less expensive in the long-run to fund redevelopment activities on a cash basis, the Board of Supervisors may want to consider a pay-as-you-go policy option when they review future tax increment-backed bond issues.

Recommendations

The Board of Supervisors should:

1.1 Consider pay-as-you-go as a policy option when they review future tax increment-backed bond issues.

1.2 Consider using available tax increment revenues to fund Agency administrative and personnel costs when they review future tax increment-backed bond issues.

Costs/Benefits

These recommendations could be implemented at no additional cost. If the City had used a pay-as-you go method instead of bond financing over the past three years from FY 1989-90 through FY 1991-92, the City would have saved approximately $1 million in transaction costs. Depending on the discount rate, additional savings from the past three years in present value 1991-92 dollars would have ranged from $0 to $18 million over the next 30 years.

Based on bond requirements from FY 1992-93 through the year 2000, pay-as-you-go versus bond financing would save between $952,164 to $1,128,398 in present value 1991-92 dollars in transaction costs to bond finance redevelopment activities depending on the discount rate. Also based on projected bond requirements from FY 1992-93 through the year 2000 and depending on the discount rate, additional savings to the City to use a pay-as-you go method instead of bond financing would range from $0 to $31 million.

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SECTION 2: AGENCY BUDGETARY PROCEDURES

- SUBSEQUENT TO OBTAINING APPROVAL OF ITS ANNUAL BUDGET FROM THE BOARD OF SUPERVISORS, THE AGENCY CHANGES ITS BUDGET ALLOCATIONS DURING THE COURSE OF THE FISCAL YEAR.

- IN SOME INSTANCES SUCH CHANGES ARE IN VIOLATION OF STATE HEALTH AND SAFETY CODE SECTION 33606, WHICH STATES THAT THE BOARD OF SUPERVISORS SHOULD APPROVE AMENDMENTS TO THE AGENCY'S BUDGET. THE AGENCY HAS A POLICY OF BRINGING BUDGETARY REVISIONS BEFORE THE BOARD OF SUPERVISORS ONLY WHEN IT WANTS TO TRANSFER FUNDS INTO NEW PROGRAM CATEGORIES, BUT NOT WHEN BUDGETS ARE CHANGED FOR EXISTING PROGRAMS.

- IN ADDITION, THE AGENCY DOES NOT SUBMIT REQUIRED QUARTERLY REPORTS OF ALL EXPENDITURES AND REVENUES TO THE BOARD OF SUPERVISORS. CONSEQUENTLY, THE AGENCY LACKS OUTSIDE ACCOUNTABILITY AND THE BOARD OF SUPERVISORS IS UNAWARE OF CHANGES IN THE AGENCY'S BUDGETARY PRIORITIES.

- IN ORDER TO PREVENT SUCH UNILATERAL BUDGETARY CHANGES AND IN ORDER TO INCREASE ACCOUNTABILITY, THE BOARD OF SUPERVISORS SHOULD REQUIRE THE AGENCY TO OBTAIN APPROVAL OF SIGNIFICANT BUDGET REVISIONS AND THE AGENCY SHOULD PROVIDE THE BOARD OF SUPERVISORS WITH ADDITIONAL FISCAL AND BUDGET INFORMATION.

Introduction

The Agency's budgeting process differs significantly from the budgeting processes of City departments. The Agency submits a budget to the Mayor and the Board of Supervisors for approval, but does not seek approval from the Board of Supervisors to make revisions to the budget during the fiscal year, unless Agency Counsel determines such approval is necessary. In fact, even the original budget established by the Agency for internal accounting purposes often has differed significantly from the version approved by the Board of Supervisors (although for the most part the changes have resulted in reduced expenditures - see Table 6 below). However, the Agency does have procedures which requires them to receive its Commission's approval for every expenditure (budgeted or otherwise) over $20,000. The Agency Commission, in effect, serves as the Agency's Controller as well as the Agency's policy making body. However, the difference between the Agency Commission and the City's Controller is that the Agency Commission relies on staff reports to ensure that expenditures are occurring within approved budgets while the Controller tracks actual account expenditures and revenues independently. The Agency does not have an outside independent authority monitoring its expenditures against the approved budget. As a result, the Board of

Supervisors is not aware of changes to the Agency's budget and there is no outside fiscal accountability[1].

The following are areas of concern regarding the Agency's budgetary accountability to the Board of Supervisors:

- The budget is amended without State mandated approval of amendments by the Board of Supervisors;
- Although the City's Administrative Code requires the Agency to submit quarterly reports of all expenditures and revenues to the Board of Supervisors, the Agency does not submit such reports; and,
- The budget document submitted to the Board of Supervisors does not provide sufficient information to effectively evaluate the Agency's proposed budget.

Changes to the Agency Budget

Because of the nature of the work performed by the Agency and the types of revenues used to fund these activities, the Agency's budget can change significantly during the course of a fiscal year. The two primary sources of Agency revenue are income (land sales and lease revenues) and, in the past three years, tax increment-backed bond funds. When Agency revenues are projected in January and February for the following fiscal year, certain land parcels may be expected to sell. However, the sale may not occur or the market may bring a different price than expected. As such, the Agency could receive less revenues than originally anticipated and reduce expenditures accordingly. For example, in FY 1990-91 the Agency submitted and the Board of Supervisors approved a budget for approximately $98 million. The Agency revised the $98 million budget during the fiscal year by 58 percent to approximately $41 million. Unrealized revenues from land sales in Yerba Buena Center was the primary cause of such a large budgetary decrease. The Agency budget can also decrease because certain capital projects planned for a given year can be delayed by market forces with a corresponding delay in the expenditures for that project.

Although the Agency's total budget may decrease during the year, specific project expenditures can also increase. For FY 1990-91 the budgets for Rincon Point and Hunters Point were both increased 20 to 25 percent, respectively, in excess of budget expenditures originally approved by the Board of Supervisors (see table 6)[2].

The result is a lack of appropriation control and a lack of accountability to the Board of Supervisors. According to Section 33606 of the State Health and Safety Code, "When the legislative body is not the redevelopment agency, the legislative

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[1] However, Health & Safety Code Section 33080.1 requires the Agency to have an annual independent financial audit report prepared and the Agency has been meeting this requirement.

[2] Actual expenditures through October 1991 for Hunters Point were below levels approved by the Board of Supervisors and actual expenditures for Rincon Point were seven percent in excess of levels approved by the Board of Supervisors. However, because work program budgets are held open for three years, additional expenditures could occur for these two projects.

body shall approve the annual budget and amendments of the annual budget of the agency." Based on interviews with Agency staff, the Agency's definition of budget amendments requiring Board of Supervisors approval is the shifting of funds from an existing program to a new program category. Agency staff add that this policy is based on extensive discussion with Agency Council regarding the Agency's budgeting discretion. For example, in 1988 the Agency requested authorization from the Board of Supervisors to shift funds to provide new services for the Fisherman's Wharf area. However, if the Agency decides that more money is needed in the India Basin project area than for Central Relocation Services, they will shift the funds with the approval of the Agency's Commission but not the Board of Supervisors, if Agency Counsel determines such a shift is legally permissible.

Table 6 on the following page demonstrates the Agency's budgets for the past three years as presented to the Board of Supervisors, as originally recorded in Agency account ledgers, and as revised by the Agency. This table demonstrates that there are significant differences between the Agency's annual budget as approved by the Board of Supervisors and the actual expenditures as subsequently made by the Agency. Further, the Agency amends its budget significantly throughout the fiscal year without Board of Supervisors approval. As noted earlier, these changes are primarily reductions in the Agency's budget which are undertaken to ensure that expenditures do not exceed reduced revenue estimates.

Agency staff state that as long as the Agency is making changes within the broadly approved work program categories, Board of Supervisors approval is not required, even though there are significant budget changes from the budget approved by the Board of Supervisors and as the budget is recorded in the Agency's accounting system. As a result of these budgeting changes, the Board of Supervisors has little knowledge nor can they participate in the decision-making process when the Agency makes policy changes by reallocating previously approved budget items.

To increase the Board of Supervisors knowledge of budgetary changes and participation in the decision making process, in addition to any new programs brought before the Board of Supervisors, any increase in expenditure beyond ten percent of the funds budgeted for a project or any new positions created during the course of the year should be brought before the Board of Supervisors for review and approval.

Quarterly Report

The City's Administrative Code Section 24.3 requires the Agency to submit quarterly reports to the Board of Supervisors detailing all of its transactions, including a statement of all revenues and expenditures. A quarterly report would provide information to the Board of Supervisors about the financial status of the Agency and the progress of the Agency's projects. The Agency does not submit such a report.

To comply with the City's Administrative Code, the Agency should submit a quarterly report to the Board of Supervisors that should include, in addition to

Table 6

Budgeted and Actual Expenditures
by Project Area thru September 1991
1988-1991

	1988 Budget Submitted to Board of Supervisors	Original Agency Budget	Revised Agency Budget	Difference Between Orig. and Revised	Actual Expenditures	Remaining Fund Balance	% Difference Original/ Revised Budg.
Hunters Point	5,179,300	3,738,599	1,979,295	1,759,304	1,532,670	446,625	47.06%
Rincon Point	26,133,155	26,229,376	4,380,870	21,848,506	4,380,871	-1	83.30%
India Basin	265,900	255,154	565,900	-310,746	565,900	0	-121.79%
Western Add. A-2	4,727,950	4,727,950	3,241,868	1,486,082	3,115,606	126,262	31.43%
Yerba Buena Center	4,560,783	4,443,745	4,267,614	176,131	4,239,182	28,432	3.96%
South Beach	0	698,670	727,764	-29,094	727,764	0	-4.16%
Non-Project Area	333,483	824,661	1,310,785	-486,124	1,272,894	37,891	-58.95%
Total	**$41,200,571**	**$40,918,155**	**$16,474,096**	**$24,444,059**	**$15,834,887**	**$639,209**	**59.74%**

	1989 (1st 6 Months) Budget Submitted to Board of Supervisors	Original Agency Budget	Revised Agency Budget	Difference Between Orig. and Revised	Actual Expenditures	Remaining Fund Balance	% Difference Original/ Revised Budg.
Hunters Point	1,869,588	524,500	436,064	88,436	436,064	0	16.86%
Rincon Point	21,954,679	1,559,450	940,545	618,905	919,934	20,611	39.69%
India Basin	287,845	251,200	166,382	84,818	166,382	0	33.77%
Western Add. A-2	3,794,719	2,292,957	1,896,168	396,789	1,725,966	170,202	17.30%
Yerba Buena Center	10,426,987	6,761,100	3,607,910	3,153,190	3,441,405	166,505	46.64%
South Bayshore	455,194	431,300	175,000	256,300	131,719	43,281	59.42%
South Beach Harbor	0	1,673,728	557,086	1,116,642	434,506	122,580	66.72%
Non-Project Area	645,571	326,190	514,957	-188,767	514,957	0	-57.87%
Total	**$39,434,583**	**$13,820,425**	**$8,294,112**	**$5,526,313**	**$7,770,933**	**$523,179**	**39.99%**

	FY 1989-90 Budget Submitted to Board of Supervisors	Original Agency Budget	Revised Agency Budget	Difference Between Orig. and Revised	Actual Expenditures	Remaining Fund Balance	% Difference Original/ Revised Budg.
Hunters Point	7,862,000	7,824,000	10,713,874	-2,889,874	2,998,143	7,715,731	-36.94%
Rincon Point	13,723,000	13,610,000	4,625,809	8,984,191	2,711,074	1,914,735	66.01%
India Basin	71,000	81,000	116,435	-35,435	116,435	0	-43.75%
Western Add. A-2	3,844,000	3,727,450	6,362,619	-2,635,169	4,372,242	1,990,377	-70.70%
Yerba Buena Center	8,640,000	39,548,500	7,956,969	31,591,531	6,415,135	1,541,834	79.88%
South Beach Harbor	7,431,000	2,940,500	810,799	2,129,701	810,799	0	72.43%
South of Market	0	0	111,856	-111,856	109,584	2,272	
City-wide Housing	10,344,000	0	11,466,077	-11,466,077	11,466,077	0	
Non-Project Area	1,648,000	1,756,600	1,200,344	556,256	918,110	282,234	31.67%
Low&Mod House Fund	0	0	496,555	-496,555	496,555	0	
Total	**$53,563,000**	**$69,488,050**	**$43,861,337**	**$25,626,713**	**$30,414,154**	**$13,447,183**	**36.88%**

	FY 1990-91 Budget Submitted to Board of Supervisors	Original Agency Budget	Revised Agency Budget	Difference Between Orig. and Revised	Actual Expenditures	Remaining Fund Balance	% Difference Original/ Revised Budg.
Hunters Point	903,000	913,799	1,103,876	-190,077	860,125	243,751	-20.80%
Rincon Point	2,790,000	2,796,532	3,505,411	-708,879	2,989,772	515,639	-25.35%
India Basin	101,000	100,500	90,220	10,280	81,714	8,506	10.23%
Western Add. A-2	4,305,000	4,296,078	4,861,163	-565,085	4,103,598	757,565	-13.15%
Yerba Buena Center	62,531,000	12,019,978	12,522,690	-502,712	11,388,245	1,134,445	-4.18%
South Beach Harbor	8,063,000	3,479,500	1,747,884	1,731,616	1,747,884	0	49.77%
South of Market	1,330,000	0	1,183,705	-1,183,705	768,456	415,249	
City-wide Housing	10,612,000	10,589,957	10,712,506	-122,549	9,310,119	1,402,387	-1.16%
YB Garden & Cultural	0	0	1,077,154	-1,077,154	1,077,154	0	
Non-Project Area	1,189,000	1,184,132	813,744	370,388	517,059	296,685	31.28%
Economic Developmer	6,468,000	6,481,838	6,159,800	322,038	5,105,488	1,054,312	4.97%
Total	**$98,292,000**	**$41,862,314**	**$43,778,153**	**($1,915,839)**	**$37,949,614**	**5,828,539**	**-4.58%**

expenditure and revenue information, a statement of any revenue or expenditure project accounts that are expected to be more than ten percent off figures approved by the Board of Supervisors for the entire year and any additional fiscal information such as unrealized land sales. A hearing could be scheduled before the Finance Committee to discuss the contents of the report.

Budget Document

The Agency does not include actual project expenditures and revenues and budget revisions from previous fiscal years in the annual budget submitted to the Board of Supervisors. Staff at the Agency report that the Agency's financial computer system does not "roll up" individual expenditure line items into the accounts presented to the Board of Supervisors. Because of this, it is a manual operation to calculate actual revenues and expenditures as shown in the Board of Supervisors' approved budget. In fact, when the Budget Analyst requested this information for the past three years from the Agency, it required almost one month to prepare the documents. As a result, the Board of Supervisors does not know if the budget which is approved at the beginning of the fiscal year is spent in accordance with the goals and objectives of the approved work program budget. The Agency has a policy of bringing budgetary items before the Board of Supervisors only when it wants to put funds into new program categories, not when funds are shifted between established programs. Agency staff report that the Agency is installing a new financial computer system that will allow expenditures to be tracked as approved by the Board of Supervisors.

In addition, it is Agency policy that each annual budget has a three year life. For example, funds appropriated in FY 1991-92 can be carried forward through FY 1993-94. After the end of the third year, staff review and determine whether the funds will be used for the original objective or reprogrammed in the budget for the next fiscal year. In other words, after the Board of Supervisors approves the Agency's budget, the Agency has three years to spend the funds. The Board of Supervisors, however, does not receive specific information about the expenditure of carry forward funds from previous fiscal years. Such information would assist the Board of Supervisors in reviewing the Agency's budget as well as provide information regarding the progress of Agency's activities. Also, the unexpended funds represent work program items not accomplished in previous years but expected to be still accomplished and, therefore, impact the Agency's ability to accomplish the activities contained in the proposed budget. Provision of this information could further inform the Board of Supervisors about revisions to multi-year agency projects and activities.

The following items should also be included in the Agency's annual budget document:

- Actual Revenues and Expenditures - As noted above, the budget submitted to the Board of Supervisors contains no data on actual revenues and expenditures, except for administrative costs. Like other City departments, data from the previous two fiscal years should be submitted to the Board of Supervisors. Actual expenditure data should include encumbered and

unencumbered funds. Because unencumbered funds cannot be re-appropriated, these actual expenditure and revenue data should be included as a separate table at the end of the budget document.

- Interest Income - The Agency does not include interest income as a separate line item in its annual budget. It is Agency policy that interest income accumulated in one fiscal year is carried-forward as a revenue source into the next fiscal year. In FY 1990-91, the Agency accumulated $3,290,000 in interest income that it did not include in its budget submitted to the Board of Supervisors for that fiscal year (although it was included as a revenue source for the following fiscal year). The Board of Supervisors should know about this revenue source while evaluating the annual budget.

- Five Year Revenue and Expenditure Projections - Such projections would provide the Board of Supervisors with an understanding of how much funding the Agency anticipates needing over a five year period, including tax increment revenues, and details on when projects are expected to be completed. These projections are currently produced by staff but not included in the budget document.

As an example of the format the Agency may wish to adopt, a section of the Los Angeles Community Redevelopment Agency program budget is included in Appendix E.

Conclusion

The Agency budget approved each year by the Board of Supervisors is not implemented as approved. In addition, substantive revisions are made by the Agency without Board of Supervisors approval throughout the fiscal year, with some such changes being in violation of the State Code (although Agency staff state that Agency Legal Counsel is consulted for determining when budget amendments should be brought back to the Board of Supervisors for approval). Consequently, the Board of Supervisors has not been aware of changes to the Agency's budget both during the fiscal year and and after the fiscal year ends. As a result, the Agency lacks outside independent fiscal accountability. To increase fiscal accountability, the Agency should submit financial quarterly reports and include additional information in the annual budget document regarding actual expenditures and revenues for the previous two years and include five year projections of expenditures and revenues. In addition, the Board of Supervisors should amend the City's Administrative Code to clearly require the Agency to obtain approval from the Board of Supervisors for any budgetary changes made in its annual budget if such changes exceed ten percent of the funds budgeted for a specific project or result in the creation of new positions.

Recommendations

The Agency's Executive Director should:

2.1 Direct the Deputy Executive Director for Finance to submit quarterly reports to the Board of Supervisors to be scheduled at a hearing before the Finance Committee. This report should include actual expenditures and revenues and a statement of any revenue or expenditure project accounts that are expected to either increase or decrease by more than 10 percent of the amounts adopted by the Board of Supervisors.

2.2 Direct the Deputy Executive Director for Finance to include actual expenditures and revenues from the previous two years as a separate table at the end of the Agency's annual budget submitted to the Board of Supervisors. Actual expenditure data should include encumbered and unencumbered carry forward funds. In addition, the annual budget should include interest income revenues earned on bond proceeds. Finally, the annual budget should include five year expenditure and revenue projections.

The Board of Supervisors should:

2.3 Amend the City's Administrative Code to require the Redevelopment Agency to request approval from the Board of Supervisors of any transfer in project area accounts for amounts in excess of 10 percent of the annual budget amount for the project as originally approved by the Board of Supervisors. Additionally, Board of Supervisors approval should be obtained for any additional positions created during the fiscal year.

Costs/Benefits

These recommendations can be implemented at no additional cost. Their implementation would increase Agency fiscal accountability to the Board of Supervisors and result in greater oversight over Agency budgets, as mandated by State law. The Board of Supervisors would also be more informed concerning the Agency's progress towards original planned accomplishments and changes in the Agency's budgeted program activities.

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SECTION 3: AGENCY INFORMATION

- IN VIOLATION OF STATE HEALTH AND SAFETY CODE SECTION 33080.1, THE AGENCY DOES NOT SUBMIT AN ANNUAL REPORT TO THE BOARD OF SUPERVISORS. FURTHER, THE BOARD OF SUPERVISORS RECEIVES LIMITED INFORMATION OVERALL DESCRIBING AGENCY ACTIVITIES.

- AS A RESULT, IT IS DIFFICULT FOR THE BOARD OF SUPERVISORS TO HAVE A CLEAR UNDERSTANDING OF AGENCY OPERATIONS.

- IF THE AGENCY MEETS STATE REPORTING REQUIREMENTS AND PROVIDES ADDITIONAL USEFUL INFORMATION, THE BOARD OF SUPERVISORS WILL FULFILL ITS STATE MANDATED FUNCTIONS RELATED TO AGENCY OPERATIONS.

As noted in the Introduction, the vast majority of jurisdictions in California have their legislative body serving as the redevelopment agency. By assuming the responsibilities of the agency, the legislative body not only approves redevelopment plans but also approves actions governing the day-to-day operations of the agency.

In San Francisco, where there is a separate agency with an appointed governing board, the Board of Supervisors has limited authority over the Agency. Daily oversight of operations is entrusted to the Agency Commission. The Board of Supervisors responsibilities are:

- Approval of all areas to be surveyed;

- Approval of each redevelopment plan;

- Approval of any changes to redevelopment plans as originally presented; and,

- Approval of the annual Agency program budget and any amendments to that budget.

Information Required Under State Code

To enable the Board of Supervisors to make informed decisions regarding the responsibilities outlined above and to allow for an appropriate level of fiscal oversight, State Community Redevelopment Law requires the Agency to submit specific information to the Board of Supervisors. These requirements include the presentation of an annual report to the Board of Supervisors and an annual budget submission that contains specified information. Requirements concerning the budget submission are discussed in Section 2.

Annual Report to the Board of Supervisors

The provisions of Health and Safety Code Section 33080.1 state that "every redevelopment agency shall present an annual report to its legislative body within six months of the end of the agency's fiscal year." The annual report should contain the following information:

- An independent financial audit report for the previous fiscal year;
- A fiscal statement for the previous year containing information on the agency's indebtedness and receipt of tax increment revenues;
- A description of agency's activities affecting housing and displacement of individuals; and,
- Any other information that the agency believes may be useful to explain its programs, including, the number of jobs created as a result of its activities.

The fiscal information contained in this annual report must be recorded on forms developed by the State Controller's Office. The information received from all of the State's redevelopment agencies are published in an annual document. Health and Safety Code Section 33080.2 states that after the Board of Supervisors receives the the annual report, the Board of Supervisors has 21 days to take any action that it deems appropriate.

Currently, the annual report is not being transmitted from the Agency to the Board of Supervisors and no hearings on the annual report have ever been scheduled by the Board of Supervisors. Although the fiscal information required by the State Controller is in a format that is not easy to evaluate[1], the transmittal of this and the other required information would provide the Board of Supervisors with an opportunity, outside of the annual budget process, to review agency operations.

Need for Additional Information

By providing the information contained in the annual report, the Agency would ensure compliance with State requirements and could initiate a process that would assist the Board of Supervisors in fulfilling their role as defined by State law. Interviews with senior management in the Agency revealed a general agreement that the Board of Supervisors could and should receive more information on Agency activities and operations.

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[1] The information transmitted to the State Controller by the Agency does not follow the format of the Agency's budget submission to the Board of Supervisors.

While the annual report will be a vital tool for the Board of Supervisors, recent changes in the Agency's mission statement indicate a need for still more information. With a new emphasis on affordable housing production and economic development, the Agency is moving into activities not specifically tied to project areas and the formal project area approval procedures. Because of this, there is less opportunity (outside the budget process) for the Board of Supervisors to review Agency goals and achievements in these areas.

As stated above, State law requires the Agency to submit the required annual report within six months of the closing of the fiscal year. We recommend that with the transmittal of this report, the Agency also provide documentation that would give the Board of Supervisors additional information on Agency operations. This would provide the Board of Supervisors with an opportunity to receive a "final" report on Agency activities for the preceding fiscal year. In order to make this a meaningful activity, the information transmitted from the Agency should not only include the documentation required by the State code, but the following information:

- <u>Agency Fact Book:</u> The Agency has resumed production of an annual fact book that provides brief and useful information on activities in each project area.

- <u>Revenues and Expenditures:</u> A final statement on all Agency revenues and expenditures for the preceding fiscal year in a format consistent with the budget adopted by the Board of Supervisors.

- <u>Tax Increment/Housing Funds Program Report:</u> As stated in its mission statement, the Agency would produce an annual report on the activities of the tax increment housing program. Although reports on the housing program have been produced, they are not in the format stated in the mission statement nor have they formally been presented to the Board of Supervisors. According to the mission statement, the annual report detailing the Agency's Tax Increment/Housing Funds Program would :

    - Report all actual expenditures by the Agency on housing programs during the previous two years;

    - Identify all housing funds from any source presently held by or receivable to the Agency;

    - Identify all housing funds anticipated to be received by the Agency from all sources in the next year and thereafter and any restrictions on their use; and,

    - Describe Agency and City policy objectives for the use of these funds, including allocations for specific projects or housing programs insofar as is known or planned.

- Economic Development Report: As the other major new activity of the Agency, an annual report on economic development activities should also be produced. The format of the report can be determined by the Agency but should at a minimum contain:

  - All actual expenditures by the Agency on economic development programs during the previous two years;

  - Results of each economic development program such as the number of loans awarded, number of jobs created, number of individuals placed in positions, etc; and,

  - Coordination efforts between the Agency and other City departments providing economic development assistance in the City, specifically the Mayor's Office of Business and Economic Development and the Mayor's Office of Housing and Community Development.

- Any other information the Agency feels would be helpful to describe its programs.

With this information, the Board of Supervisors would receive annual updates on Agency fiscal transactions, Agency activities within project areas, and in the areas of housing and economic development. This would provide a detailed overview for the Board of Supervisors and increase the Board of Supervisors knowledge of Agency operations.

The annual report required by State law, the Agency Fact Book, and a statement of Agency revenues and expenditures should be transmitted by the end of each year. The requirements for an annual report on housing and economic development activities should be initiated in 1992 and be provided to the Board of Supervisors with the aforementioned reports by December 31, 1992.

Conclusion

The Agency does not provide all information required by Community Redevelopment Law to the Board of Supervisors. This makes it difficult for the Board of Supervisors to oversee Agency operations and to consider approval of necessary project areas and annual budgets. By submitting the information required by State codes plus additional reports, specifically concerning housing and economic development activities, the Board of Supervisors would gain greater knowledge of Agency activities and be better able to fulfill its State-mandated responsibilities. This information should be presented to the Board of Supervisors within six months of the end of the fiscal year (by December 31st) and the Board of Supervisors would then have three weeks to schedule a hearing to consider the report and take any appropriate action.

Recommendations

The Agency Executive Director should:

3.1 Submit all the information required by Health and Safety Code Section 33080.1 and a statement of Agency revenues and expenditures for fiscal year 1991-92 to the Board of Supervisors prior to December 31, 1992.

3.2 Direct the Housing Chief to produce an annual report on the tax increment housing program as outlined in the Agency's mission statement and ensure that the first such report is accompanied by the Agency's annual report commencing in 1992.

3.3 Direct the Economic Development Chief to produce an annual report on the economic development program that includes, at a minimum, the information stated above and ensure that the first such report is accompanied by the Agency's annual report commencing in 1992.

Costs/Benefits

There would be no cost for implementing these recommendations. The Board of Supervisors would benefit from the increased knowledge of Agency operations, which would assist them in carrying out their responsibilities in approving certain aspects of Agency activities and provide for increased accountability during the annual budget review process.

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SECTION 4: PROJECT MANAGEMENT

- THE AGENCY HAS NO FORMAL PROCEDURES FOR EVALUATING ACTUAL PROJECT ACCOMPLISHMENTS AND COSTS AGAINST STATED GOALS AND PROJECTED COSTS. CONSEQUENTLY, THE AGENCY HAS INADEQUATE CONTROLS TO ENSURE THAT PROJECTS ARE COMPLETED ON TIME AND WITHIN BUDGET.

- FOR EXAMPLE, WESTERN ADDITION A-2 AND YERBA BUENA CENTER PROJECT COSTS ARE 39 PERCENT AND 108 PERCENT RESPECTIVELY OVER THEIR ORIGINAL BUDGETED AMOUNTS.

- THE AGENCY SHOULD CONDUCT BIENNIAL EVALUATIONS OF PROJECT PERFORMANCE AND IMPROVE THE ANNUAL WORK PROGRAM BUDGET. SUCH PROCEDURES WOULD IMPROVE THE AGENCY'S ABILITY TO MONITOR AND CONTROL PROJECT PERFORMANCE.

The Agency's primary focus is to conduct various activities in the project areas to achieve the goals and objectives of each redevelopment plan. The Agency allocates staff and budgets on a project-by-project basis, as opposed to assigning resources on a functional basis (i.e. allocating funds Agency-wide for real estate acquisition, property management, etc.).

For the Agency's Fiscal Year 1991-92 budget, there are 11 project budgets including eight "traditional" projects in redevelopment areas plus three "non-traditional" projects of housing, economic development, and relocation services. These 11 projects have more than 100 work program items to be accomplished within the fiscal year. Each item, such as the construction of the cultural facilities, esplanade and gardens at Yerba Buena Center, requires a significant amount of Agency personnel resources to ensure timely completion.

The Agency has one project director and two project coordinators to monitor the activities within each project area. Also, other staff are assigned direct responsibility over housing, economic development and community services (including relocation). The Executive Director and the Senior Deputy Executive Director take an active role in ensuring that project activities and progress are monitored.

Interviews with staff members confirm that the Agency uses a variety of techniques to track project progress and ensure timely completion of programmed activities. These techniques are:

Short-term (less than a year)

- Staff meetings twice a week to discuss and monitor progress on project issues.

- Production of status reports with some project staff producing monthly reports and others producing reports on a more infrequent, as needed basis.

- “Forward calendar” produced for Commission members to update them on important future issues.

Annual (budget process)

- Staff submit program workplans and staffing needs to Finance staff at beginning of calendar year for review. Additional review is conducted by the Commission, Mayor's Budget Office and the Board of Supervisors. Work program budget states previous year accomplishments, proposed work program and the budget needed to implement that work program.

Long-term (greater than one year)

- Work program items are kept open for a maximum of three years. As part of the annual budget process, Finance staff review all work program items that have not been completed after three years and decide whether to keep the item open or reprogram the unexpended funds.

- As part of the annual budget review, program staff generate "project-to-completion" budgets that attempt to estimate the revenues and costs of the projects until their completion.

Analysis of Case Management Procedures

A number of analyses were conducted to evaluate the adequacy of current case management procedures. Because of severe project and financial data limitations, the report concentrates on one project - Rincon Point/South Beach (exclusive of South Beach Harbor). The Rincon Pt./South Beach (Rincon Pt.) project was chosen because of the accessibility of its ten years of historical data, including annual revenue and expenditure information. Information obtained from analysis of other project areas was used when available.

Our analysis revealed that there were a number of areas where project management practices were adequate and a number of areas where operations could be improved. Based on interviews, and a review of the efficacy of the procedures outlined above, the Agency does a good job of tracking project progress on a short-term basis. A review of documents produced to monitor the progress of the Rincon Point project shows that the initial goals and objectives of the redevelopment plan have been clearly stated over the term of the project and that many project objectives have been achieved or will be achieved in the near future. Several key components, most notably the construction of a major facility on Pier 40 (originally intended for a hotel) and the development of two waterfront parks,

have been delayed primarily through City and State law changes beyond the control of the Agency.

Project Evaluation

The primary need for improvement in project management is in project evaluation. While projects are tracked and monitored as activities occur, there is no formal effort to evaluate Agency or individual staff accomplishment either on an annual basis or over the total time period since project inception.

Evaluation of Project Costs

Improvement is especially needed for evaluating costs over the life of Agency projects. Data are not readily available nor used by Agency managers to compare estimated total project costs with actual project costs since inception. An analysis conducted for three projects reveals that the Rincon Pt. project costs are still within the range of total estimated costs, but that Western Addition A-2 and Yerba Buena Center are 39 percent and 108 percent higher than originally estimated. These data are shown below:

Table 7

Original Estimated Project Costs
vs. Current Total Project Costs
(Adjusted to 1991 Current Dollars)[1]

Project	Original Estimated Project Completion Cost	Current Estimated Project Completion Cost
Yerba Buena Center	$148,757,912	$309,867,153
Western Addition A-2	167,144,390	231,553,990
Rincon Pt. -South Beach	74,385,000 - 145,473,000	100,341,000

While there are a number of significant reasons why the costs for Yerba Buena Center and Western Addition A-2 have increased, including legal action that delayed both projects, changes in funding sources and in project scope, there has been no attempt to evaluate these impacts nor to document their effect on project costs over time.

The Agency's mission statement states that ongoing projects must be completed on time and within specific budgets and that "fixed budgets and achievable schedules for the completion of existing project areas will be developed." However, if project costs are not analyzed over time, there are no means to evaluate whether projects are being completed within budget. The Agency does produce "project-to-completion" budgets annually, but an analysis of

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[1] Original cost estimates were presented to the Board of Supervisors in documents titled "Report on the Redevelopment Plan". The reports were dated as follows: Western Addition - 1964, Yerba Buena Center - 1965, and Rincon Point-South Beach - 1980.

project cost variance does not occur and these budgets are not included in the materials presented to the Board of Supervisors.

An analysis of four Agency projects for the period 1988-1991 also shows a significant variation between the anticipated costs of work program items and the actual costs. As shown in the table below, while revenues are fairly accurately estimated, expenditures are at approximately 60 percent of the budgeted amount.

Table 8

Comparison of Percentage of Actual to Budgeted Revenues and Expenditures

Project	% Actual Revenues to Budgeted Revenues	% Actual Expenditures to Budgeted Expenditures
Rincon Point - South Beach	104%	45%
India Basin	139%	137%
Hunters Point	77%	45%
Western Addition A-2	117%	88%
Total - Four Projects	106%	59%

As with project costs since inception, there are valid reasons why expenditures do not occur when projected or in the amount anticipated. However, an evaluation of the reasons and their impact needs to be undertaken to increase Agency knowledge for future budget cycles. As stated earlier, the completion of projects is constantly delayed because of market, legal and political factors beyond Agency control. While these changes are generally unavoidable, this does not reduce the need to evaluate projects to determine when delays should be attributed to outside factors and when they should be attributed to Agency performance. Such an evaluation could also allow the Agency to anticipate outside factors and improve future project planning.

Evaluation of Project and Staff Accomplishments

A formal evaluation of project accomplishments measured against project goals does not occur on an annual basis. The annual budget document states the accomplishments for each previous year and the goals for the following year, but there is no analysis comparing the previous year's accomplishment with the previous year's goals. Such an analysis is required by Health and Safety Code Section 33606 which states that the Agency's budget submission to the Board of Supervisors must include an analysis of the previous year's accomplishments with the stated goals from the previous year. This allows for an explicit comparison between what was hoped to be accomplished with what was actually accomplished.

The final component of project management that needs to be improved is the evaluation of staff performance. The Controller's recent audit report states that the Agency has no on-going performance evaluation process and recommends that one be implemented. Each Agency project has staff assigned from each technical unit that supports project activity. The productivity and performance of this staff has an obvious impact on whether projects goals are accomplished in a timely manner and within budget and should be evaluated on an annual basis.

Improvements to Agency Project Management Procedures

Based on our analysis and the discussion presented above, the Agency should make the following improvements to project management procedures:

- Biennial Project Evaluation - Health and Safety Code Section 33348.5 states that the Agency is required to conduct a biennial public hearings for the purpose of reviewing and evaluating the progress of each redevelopment plan. This requirement should be used as the basis for conducting a detailed project management and financial review of each project. This would be used primarily for internal review, but a summary report should be produced for the Agency Commission, the Board of Supervisors and the public that summarizes Agency progress toward completing the redevelopment plan within stated time frames and budgets.

  The Agency conducts these biennial hearings as required, but on the basis of the report presented for Western Addition A-2 in October 1991, the presentations are not detailed. The Agency Commission should use these hearings to conduct an internal evaluation that would compare projected revenues and costs with actual revenues and costs over the preceding two year period and the life of the project; analyze the impact of "outside" forces such as market conditions, legal actions, political restraints on project activities; and revise cost and time estimates for project completion.

- Improve Presentation of Work Program Budgets - The Controller's audit report notes that the goals and objectives stated in the annual budget do not fold into specific accomplishments and recommends that adequate time and effort be given to the development of goals and objectives that do not just meet specific reporting requirements but also connect to longer range goals and missions.

  Through our analysis of work program budgets for each project area, a similar conclusion was reached. The amount and type of information in the presentations vary from year-to-year. This is true of the presentation of goals and program costs over time, as well as background information. The format for presenting this information should be standardized and kept consistent from year-to-year.

- Analysis of Budgeted vs. Actual Work Program Accomplishments - Each annual budget should present a comparison of previous year's accomplishments against previous year's goals. This comparison should indicate the status of the goal and objective and provide an indication of when the task will be achieved and note whether the estimated cost has changed and the magnitude of that change. An example of the format that can be used is taken from the budget documents obtained from the City of Los Angeles Community Redevelopment Agency which is shown in Appendix E.

- Presentation of Five Year Goals and Budgets - The annual budget submitted to the Board of Supervisors should contain five-year goals for each project area and a table of estimated revenues and costs. This topic is discussed in more detail in Section 2.

- Use of Automated Project Management Systems - There are a number of software packages that are available that can enhance project management skills and allow for the visual presentation of the status of project tasks. The Agency does not use any automated programs for project management. The Agency's Deputy Director of Finance states that software packages were reviewed several years ago. However, staff determined that none met their needs.

  The problem with project management programs can be that they require substantial effort to obtain rigorous, useful data. However, improvements have been made in such programs and it is recommended that the Deputy Executive Director for Finance perform another evaluation of both "off-the-shelf" software programs and more advanced project management programs to evaluate whether such programs would increase the efficiency of Agency operations. Such an analysis should be presented to the Agency Commission to determine whether a program should be pursued, taking into account the cost of the program and the benefits that would result.

Conclusion

While some Agency project management procedures work well, significant improvements should be made. Most importantly, the Agency needs to implement procedures for evaluating project progress, analyzing projected against actual revenues and expenditures, and evaluating staff productivity over time and against stated goals and objectives. Project management accountability would improve by providing additional information with the Agency's annual work program budget and by conducting biennial, comprehensive project reviews. Additionally, the Agency should review available automated project management programs.

Recommendations

The Agency Executive Director should:

4.1 Implement procedures that require staff to conduct biennial comprehensive evaluations of all Agency projects and direct staff to prepare summary project status reports for the Agency Commission, the Board of Supervisors and the general public.

4.2 Direct the Deputy Executive Director for Finance to standardize the presentation of the annual work program budget, including an analysis of the previous year's project accomplishments with the stated goals for that year and five year budget projections.

4.3 Direct the Deputy Executive Director for Finance to evaluate automated project management programs and to present a report to the Agency Commission detailing whether such programs would increase the efficiency of Agency project management procedures.

Costs/Benefits

These recommendations could be implemented without additional cost and would improve the efficiency of Agency operations by resulting in better project management practices.

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SECTION 5: ECONOMIC DEVELOPMENT

- **THE AGENCY'S ECONOMIC DEVELOPMENT PROGRAM HAS NOT BEEN DESIGNED NOR IMPLEMENTED IN A COHESIVE MANNER. SIGNIFICANT MONIES HAVE BEEN ALLOCATED PRIOR TO A COMPREHENSIVE NEEDS ASSESSMENT AND WITHOUT USING A COMPETITIVE, REQUEST-FOR-PROPOSALS (RFP) PROCESS.**

- **AS A RESULT, THE AGENCY HAS NOT ENSURED THAT ECONOMIC DEVELOPMENT FUNDS HAVE BEEN ALLOCATED AS EFFICIENTLY AS POSSIBLE.**

- **THE BOARD OF SUPERVISORS SHOULD NOT APPROVE ANY ADDITIONAL FUNDS FOR AGENCY ECONOMIC DEVELOPMENT PROGRAMS UNTIL THE AGENCY COMMISSION ADOPTS AND SUBMITS TO THE BOARD OF SUPERVISORS A COMPREHENSIVE IMPLEMENTATION PLAN AND THE MAYOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT ESTABLISHES SPECIFIC CITY-WIDE GOALS AND OBJECTIVES.**

- **THESE STEPS WOULD ENSURE THAT AGENCY FUNDS FOR ECONOMIC DEVELOPMENT ARE USED IN THE MOST EFFECTIVE AND EFFICIENT WAY POSSIBLE.**

As noted in the Introduction, the Redevelopment Agency Commission adopted a new mission statement in early 1989 that was also approved by the Board of Supervisors. One key element of this mission statement is the development and implementation of an economic development program. The goal of this program is to:

> "Foster local small business participation in all existing and any future redevelopment project areas in order to further one of the State declared fundamental purposes of redevelopment, namely 'to expand employment opportunities for jobless, underemployed, and low-income persons, and to provide an environment for the social, economic and psychological growth and well-being of all citizens'. The Agency's emphasis will be in minority communities where the need is greatest."

The Agency's economic development program represents a significant departure from previous economic development efforts. The Agency's activities in project areas have always emphasized <u>commercial development</u> in which the Agency attempts to stimulate economic growth through residential, commercial and industrial land development which generates tax increases, increases aggregate payroll and strengthens the overall economic base in San Francisco. A commonly sited example of these efforts is the Marriott Hotel located in the Yerba

Buena Center project area which has provided significant numbers of jobs for minorities and unemployed and underemployed residents.

The new program, however, is intended to focus on community development which is intended to provide residents, particularly low and moderate income earners, with an opportunity to more fully participate in the City's economy.[1] The emphasis of this program is to provide employment development, business and technical assistance, financial assistance and community revitalization services to individual residents and businesses themselves to increase their economic viability.

The Agency has struggled to implement its economic development program since the mission statement was approved two and a half years ago and the initial funding was provided two years ago. The Agency has attempted to define how this emphasis on community development can best be fulfilled using Agency funds and what type of programs should be implemented both in and out of redevelopment project areas. During the period since program implementation, the Agency has also been subject to pressure from interest groups in various City neighborhoods which have pushed their own programs and have been critical of some of the Agency's proposed programs.

The analysis conducted for this report has found a number of areas of concern that need to be rectified if the economic development program is to be effective and its financial resources allocated efficiently. Some of these areas are already being addressed by Agency staff, and this is noted in the following discussion. The areas of concern are:

- The Agency Commission has yet to adopt a formal implementation policy for the economic development program nor has it adopted a policy to guide when Agency activities should occur outside project areas. Because of this the current program has been implemented without any overall development plan.

- The initial focus of the economic development program, as explicitly stated in the mission statement, was to be in existing and future project areas. Yet, most of the funding to date has been outside approved project areas and nearly all of the funds allocated for the Western Addition and Hunters Point in FY 1989-90 have gone unexpended.

- All of the funds awarded to non-profit organizations for employment development and business and technical assistance - totalling over $2 million over two years - have been awarded without using a Request-for-Proposals (RFP) process. While Agency staff advise that this procedure will be changed, the Agency Commission should formally adopt a policy stating that funds allocated for any future activity should be awarded based on the review of proposals submitted through an RFP process.

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[1] Commercial vs. community development discussion adopted from Draft San Francisco Redevelopment Agency, Economic Development Program, Implementation Plan, May 1991.

- Significant funds have been allocated to various neighborhoods prior to conducting a needs assessment of what economic development programs are required to foster economic development and the costs of the programs to meet those needs. For example, the Agency budget for FY 1991-92 includes $2 million for economic development for Chinatown but no prior assessment was conducted of what programs are needed and the cost of those programs and no assessment was conducted of whether Chinatown represents the best use of these limited funds City-wide.

- The Mayor's Office of Business and Economic Development (MOBED), which coordinates the City's economic development efforts, has yet to formally define an economic development role for the Agency. As a result, Agency officials have independently implemented their own program that does not necessarily represent the City's overall strategy or the most effective use of Agency financial and personnel resources.

Implementation Plan

As noted above, the Agency Commission approved the Agency mission statement with its focus on economic development in April 1989. This mission statement provides a broad outline of what programs would be pursued but is not intended to specifically define each program, the application guidelines, eligibility criteria, selection process, etc. Such details are more appropriate for an implementation plan. Agency economic development staff have produced a number of drafts of a comprehensive implementation plan, the most recent dated May 1991. However, some elements have not been enthusiastically endorsed by the community and the plan has never been presented to the Agency Commission for approval.

In the absence of an adopted implementation plan, economic development programs are being implemented in a piecemeal, program-by-program basis. Some elements, such as the business and technical assistance being provided by two non-profit organizations, were established early, while others such as a Facade Improvement Loan Program for the South of Market Project Area were approved by the Agency Commission in October 1991. This procedure does not ensure that the economic development program is implemented in the most efficient way possible. Without a guiding implementation document which clearly states the types of programs the Agency will and will not pursue, the application and award criteria that will be employed, and the appropriate monitoring procedures, there can be no overall assessment on how a proposed program meets the Agency's economic development goals. This does not mean that the individual programs adopted to date are flawed but that there is no efficient means for the Agency to evaluate the scope of proposed programs against an adopted implementation plan.

The most recent draft implementation plan meets many of the above mentioned criteria and provides the framework for Agency Commission consideration. The Commission should allocate the time to deal with its

individual components and come to a precise decision on a specific plan that will be used to implement additional economic development programs. What programs the Agency will and will not pursue and fund should be established prior to project evaluation and not as funding contracts are brought forth to the Commission for approval. That such an implementation plan is needed is implicitly acknowledged by the Agency Commission President in a memo to the Executive Director which states that the Commission has not given staff a "clear message" on economic development. To emphasize the importance of adopting such a plan, the Agency Commission should not approve any additional economic development contracts and the Board of Supervisors should not approve any additional economic development funds for the Agency until such an implementation plan has been adopted by the Agency Commission and presented to the Mayor and the Board of Supervisors.

Economic Development Inside and Outside of Project Areas

Since the implementation of the economic development program, the Agency has provided funds for economic development activities both in redevelopment agency project areas and in neighborhoods outside project areas. The source of funds for activities funded in project areas has primarily been tax increment monies. However, because tax increment revenues are limited to the project areas in which they are generated, Community Development Block Grant program income funds are being used for economic development activities outside project areas. The table below shows total funds allocated for economic development and the total fund amounts that have been committed through September 1991.

Table 9

Economic Development Program Funding Amounts and Committed Funds Since Program Inception

Year	Work Program	Budgeted Expenditures	Funding Commitments thru September 1991(a)
1989-90	Hunters Point	$3,150,000	$88,381
1989-90	Western Addition A-2	2,150,000	627,000
1990-91	Economic Development	6,468,000	5,105,488
1991-92	Economic Development	3,762,459	426,194
	Totals Thru 1991-92	$15,530,459	$6,247,063
	Totals Thru 1990-91	$11,768,000	$5,820,869

(a) Includes expenditures and encumbrances.

Table 10 on the following page shows the total contracts awarded for economic development from program inception through October 1991. The total awarded contracts of $9,033,781 exceeds the funding commitments of $6,247,063

Table 10

Allocated Funds and Contracts Awarded through
Economic Development Program

Contract Award	Amount	Period	Purpose	SFRA Resol. Date
Ella Hill Hutch Comm Center	$203,110	7/89-6/90	Construction employment svsc	6/27/89
Ella Hill Hutch Comm Center	$224,000	7/90-6/91	WA1-2 employment svsc	6/26/90
Ella Hill Hutch Comm Center	$28,080	Not stated	WA2 employment development svsc	8/14/90
Ella Hill Hutch Comm Center	$133,000	7/91-12/91	WA1-2 employment devel. svsc	7/2/91
Ella Hill Hutch Comm Center	$125,891	Not stated	Construction employment svsc	9/16/91
Subtotal EHHCC	**$714,081**			
Environmental Science Assoc.	$150,000	Not stated	Enterprise Zone EIR	8/28/90
Environmental Science Assoc.	$85,000	Not stated	EIR First amendment	1/8/91
Environmental Science Assoc.	$35,000	Not stated	EIR Second Amendment	7/9/91
Subtotal ESA	**$270,000**			
Mission Economic Devel. Assoc.	$100,000	8/90-7/91	SOMA business & tech. assistance	7/31/90
Mission Economic Devel. Assoc.	$30,000	Not stated	SOMA business assistance	12/4/90
Mission Economic Devel. Assoc.	$72,000	4/91/-3/92	SOMA Sidewalk Cleaning Program	4/2/91
Mission Economic Devel. Assoc.	$62,500	8/91-12/91	SOMA business recovery svsc	7/23/91
Mission Economic Devel. Assoc.	$70,000	10/91-9/92	SOMA facade improvement prog.	10/15/91
Subtotal MEDA	**$334,500**			
SMEC/Mission Hiring Hall	$220,000	8/90-7/91	JOBS/SF personnel/hr SOMA/YBC	7/31/90
SMEC/Mission Hiring Hall	$91,667	8/91-12/91	Employment Services-SOMA/YBC	7/16/91
Subtotal SMEC/MHH	**$311,667**			
Urban Econ Devel Corp	$56,000	10/89-6/90	India Basin econ. consulting svsc	9/26/89
Urban Econ Devel Corp	$210,000	7/90-6/91	Business consulting svsc	7/24/90
Urban Econ Devel Corp	$105,000	7/91-12/91	HP/IB/WA technical assistance	7/2/91
Urban Econ Devel Corp	$100,000	Not stated	Minority business development	12/8/87
Subtotal UEDC	**$471,000**			
Young Community Developers	$30,000	4/90-7/91	HP-construction employment svsc	4/24/90
Young Community Developers	$150,000	8/90-7/91	HP/SB employment devel. svsc	8/21/90
Young Community Developers	$83,333	8/91-12/91	HP/IB employment development ass	7/16/91
Subtotal YCD	**$263,333**			
345 Williams Ave	$4,198,000	Not relevant	Supermarket site	9/18/90
Cala Foods, Inc.	$500,000	Not relevant	Leasehold Improvement Loan	1/15/91
Judicial Arbitration & Mediation	$2,200	Not relevant	Arbitration for Supermarket purch.	11/13/90
Subtotal Cala Supermarket	**$4,700,200**			
Small Business Loan & Invst. Prog	$434,000	Not relevant	Funds for HP/IB	11/14/89
Small Business Loan & Invst. Prog	$500,000	Not relevant	Funds for WA2	11/14/89
China Cafe	*	Not relevant	*$100,000 Loan from WA-2 fund	3/19/91
Francee Covington	*	Not relevant	*$100,000 loan from WA-2 loan fun	8/13/91
Loretta Marie Whittle	*	Not relevant	*$80,000 Loan from IB/HP funds	1/30/90
MOBED	$75,000	Not stated	HP/IB/WA2 Loan Administration	11/14/89
Emergency Earthquake Loan Prog.	$300,000	Not stated	MOBED/SFRA assist small business	11/14/89
SOMA Facade Improve. Loan Prog.	$150,000	Not relevant	Facade Imp. loans for SOMA	10/15/91
Subtotal Loan Programs	**$934,000**			
Business Development Inc.	$25,000	Not stated	3rd St. Corridar econ. devel. progr.	4/23/91
Sedway & Associates	$45,000	Not stated	3rd St. Corridar econ. devel. progr.	4/23/91
Subtotal 3rd St. Econ Study	**$70,000**			
Minority Television Project	$500,000	Not stated	Grant for WA television station	8/13/91
SF DPW	$15,000	Not stated	Design & Const. Inspec. Naval Shp	7/9/91
Tenderloin Housing Clinic	$150,000	Not stated	Sunnyside Hotel lobby/live work	5/28/91
Subtotal Misc. Projects	**$665,000**			
Total All Contracts	**$9,033,781**			

because grants have been awarded for which funds have not yet been expended or encumbered.

The Agency has not met its commitment to allocate five percent of tax increment funds annually to economic development programs. The initial allocation of funds for the economic development program in FY 1989-90 was $5.3 million to be allocated between the Western Addition ($2.15 million) and Hunters Point/India Basin ($3.15 million). As of October 1991 only $715,381 or 13.5% of the $5.3 million has been expended[2]. Based on three years of issuing tax increment bonds, the Agency should have allocated close to $4.5 million in tax increment funds but the total commitment has only been the $2 million for the Western Addition[3]. However, total funds spent on economic development from all funding sources (including program income) has exceeded five percent of the Agency's tax increment revenues for the previous three years.

Both these points - the slow expenditures of funds for Hunters Point and the Western Addition and the under funding of tax increment funds (which must be spent in project areas) - are indicators that the Agency has been slow to implement economic development programs within project areas. The reasons for this can be attributed to a number of factors including the delay in adopting an economic development implementation plan.

State Community Redevelopment Law specifies that one of the fundamental purposes of redevelopment is to expand employment opportunities. However, unlike provisions established for creating housing, the State law does not provide for funding economic development activities with tax increment monies outside of project areas. While there is clearly a stated role for the Agency to conduct economic development activities within project areas, there is no such mandate for activities outside project areas. Therefore, when it is appropriate and in the City's interest for the Agency to be pursuing economic development activities outside project areas is a policy issue that needs to be clarified.

The Agency Commission has yet to adopt a policy specifying when it will conduct activities outside of project areas and when it will allocate funds outside of project areas. To a certain degree, Agency activities outside project areas occur through consultation with MOBED, although a formal role for Agency economic development activities City-wide has not been defined. This issue is discussed more fully below. However, the Agency Commission based on policies developed by staff, should formally state either as part of the implementation plan or in a separate document the Agency policy towards pursuing economic development activities outside of project areas. Such a document would, of course, be based on discussion with MOBED officials and a determination of what the Agency's exact role should be.

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[2] It should be noted that funds in both the FY 1990-91 and FY 1991-92 budgets have been spent in the Western Addition and Hunters Point project areas.

[3] Originally, $2 million in tax-increment funds were allocated for Hunters Point but the source of those funds has now been changed to Community Development Block Grant program income.

Use of Non-Profit Service Providers

The Agency has used five non-profit service providers for business and technical assistance and employment development and placement services. The five providers and the amount of funds they have received over the last two years are shown in the table below.

Table 11

Agency Economic Development Service Providers and Funds Received 1989-91

Name of Service Provider	Total Funds Received
Employment Development	
Ella Hill Hutch Community Center	$714,000
SMEC/Mission Hiring Hall	312,000
Young Community Developers	263,000
Business & Technical Assistance	
Mission Economic Development Corp.	335,000
Urban Economic Development Corp.	471,000
Totals	$2,095,000

These funds were not awarded through a competitive, RFP process. As such, proposals were not requested from other non-profit service providers to evaluate whether other organizations could provide the required services in a more cost effective and efficient manner.

Each of these service providers are funded through program income generated by the Community Development Block Grant program. The use of Block Grant funds must meet all U.S. Housing and Urban Development (HUD) requirements. The Mayor's Office of Housing and Community Development (MOHCD) has responsibility for administering the funds within the City and is responsible for ensuring that the expenditure of these funds complies with all appropriate guidelines.

The five service providers listed above receive Block Grant program income funds not only from the Agency but also entitlement funds under separate contracts with MOHCD. Because of this arrangement and because of the lack of procedures used by the Agency to award these economic development contracts, HUD issued an audit finding that MOHCD was not in compliance with HUD regulations. As a result, a memorandum of understanding (MOU) was drafted in August 1991 between the Agency, MOBED and MOHCD that would require the current service providers to submit proposals in response to a RFP issued by MOHCD and funds would then be awarded after a competitive review of submitted

proposals. The MOU also specifically states which role each of the three organizations will fulfill to improve the coordination of the administration and monitoring of economic development and employment services provided by non-profit corporations. This MOU was approved by the Agency in December 1991.

Agency responsibility under this MOU would include establishing overall policy directives, and establishing work programs, funding amounts and goals. Since it is important that these Block Grant funds are awarded competitively and because this MOU represents a significant change in how these contracts will be administered, it is recommended that MOHCD should prepare a report to be submitted to the Board of Supervisors as part of future Community Development Block Grant legislation that evaluates the workings of the MOU and the effectiveness of the new administrative procedures and documents the amount of staff resources expended by each organization and whether any additional changes are necessary.

Program Needs Assessment

The Agency has allocated millions of dollars for economic development activities in various City neighborhoods prior to conducting a formal needs assessment of what economic development programs are required to foster economic development both in and out of project areas and the costs of the programs to meet those needs. Some needs assessment is conducted during the budget process as individual programs are reviewed by the Agency Commission, the Mayor and the Board of Supervisors. However, this process still results in program funding amounts being determined prior to deciding how much money is required to alleviate a particular need.

A good example is Chinatown. As part of the Agency's approved Fiscal Year 1991-92 budget, $2 million has been included for economic development in Chinatown. This $2 million was reduced from a $5 million request from the community to assist businesses to recover from lingering economic dislocations caused by the October 1989 earthquake. The initial submittal from Chinatown contained no specifics on what the needs of the community were, no specifics on what programs were required to meet those needs and no specifics on the cost of each of these programs. The $2 million was included in the Agency budget and a task force of Chinatown residents was established by the Mayor to provide recommendations on how the funds should be spent.

Based on internal Agency memoranda, Agency staff thought that the Chinatown economic development funds would be spent on programs similar to other Agency economic development programs. That is, funds would be provided for loan programs and other employment development efforts. However, the final draft of the program submitted by the Task Force in October 1991 recommends that $600,000 be allocated for a shuttle to bring visitors to Chinatown and $500,000 be allocated to market Chinatown - a use that does not currently fit HUD guidelines for the expenditure of CDBG block grant funds.

This process is backwards. Prior to awarding funds, proposed programs should be evaluated on their ability to meet a demonstrable need at a justifiable cost. This would ensure that only programs that meet Agency requirements would be considered for funding. Additionally, such analysis of proposed programs could determine if other funding sources are more appropriate for a given type of program. For example, the City's Publicity and Advertising Fund administered by the Chief Administrative Officer provides funds for special events. This might be a more appropriate source for the $150,000 included in the Chinatown request to fund a major street fair.

The Agency also should evaluate not only individual programs but also the decision to provide funds to certain neighborhoods within the City. There was no explicit analysis prior to the awarding of the funds to Chinatown of whether this neighborhood represents the best use of these limited funds. The Agency now finds itself in a position where it has been approached by groups in other communities from the Mission, the Tenderloin, and the Outer Mission - Ingleside without having a specific source of funds to meet economic development needs. The Agency should implement procedures that allow for programs to be evaluated not only for their worth relative to their programmatic goals but to allow for explicit evaluation of where those funds are going to be spent and whether this is of maximum value to the City.

The Controller's recent audit report notes this problem of insufficient analysis of funding decisions and recommends that the Commission implement a policy that requires formal cost/benefit analysis for all significant program expenditures that come before the Commission. The Budget Analyst agrees with this recommendation but, based on the discussion above, further recommends that not only is a cost-benefit analysis needed for specific programs but that funds should not be allocated prior to an assessment that there is a demonstrable need for a specific program and estimates of the cost to fulfill that need have been submitted to the Agency.

Interaction with the Mayor's Office of Business and Economic Development

The Mayor's Office of Business and Economic Development (MOBED) has responsibility for the development of a City-wide economic development strategy and for coordinating the City's economic development efforts. MOBED's activities encompass a wide number of areas that range from implementing local business finance and educational programs to promoting San Francisco to overseas firms.

There are discussions among senior Agency staff, Agency Commissioners and the Director of MOBED which includes consultation on Agency economic development programs. However, there is no formal process that evaluates how the Agency's extensive financial and personnel resources can be used as efficiently as possible to serve the City's overall economic development needs. Agency officials state that they have requested in the past that MOBED develop goals and objectives that clearly states the Agency's role but that such a document has not been produced. In the absence of such document, Agency officials add

that the Agency has had to independently implement its own program to the best of its ability.

The need for such an implementation plan is especially relevant for Agency activities outside of project areas. Within project area boundaries, the Agency clearly has a mandate to conduct economic development activities and MOBED should simply ensure that they agree with the goals of such programs and provide input and guidance as necessary. However, outside of project area boundaries the justification for the Agency to be providing economic development services is less clear. MOBED should develop annual goals and objectives that define the Agency's role outside project areas and how Agency activities will further overall City economic development objectives. This would ensure that Agency resources are committed in an optimal fashion and represent not only the most efficient use of Agency funds and staff but the most efficient means to achieve key City-wide economic development objectives.

The relationship between MOBED and the Agency should be closer to the relationship that developed between the Mayor's Office of Housing and Community Development (MOHCD) and the Agency to administer the City-wide tax increment housing program. The Agency and MOHCD coordinate activities for each year and goals and objectives are set for the funding that is provided. In interviews with Agency staff, it was often stated that it is easier to develop a more structured relationship for affordable housing because the parameters of housing production projects are much easier to quantify than those for economic development programs. This may be true. However, this would be an argument for requiring closer coordination from the beginning since there is less agreement on the definition of what constitutes an "economic development program" and greater care should be taken to ensure efficient use of resources and staff.

We recommend above that the Board of Supervisors should not approve any additional funds for economic development until the Agency Commission has adopted an implementation plan. We also recommend that no additional funds should be approved until MOBED and the Agency have adopted procedures that provide for the development of an annual statement of the City's goals and objectives for economic development and how the Agency's activities for the coming fiscal year will meet those goals and objectives.

Conclusion

The process of implementing the Agency's economic development program has not occurred in an effective and efficient manner. The Agency Commission has yet to adopt an implementation plan for the program since its inception two years ago, funds have not been awarded through a competitive evaluation process, and no needs assessment has occurred prior to awarding funds for economic development programs. Additionally, the Mayor's Office of Business and Economic Development has not developed goals and objectives to guide agency activities and to ensure the Agency resources are used as efficiently as possible.

This does not mean that each of the individual economic development programs adopted by the Agency have been flawed but that the Agency should take a number of steps to improve the effectiveness of the economic development program.The Board of Supervisors should not approve any additional funds for Agency economic development until the Agency Commission has adopted a comprehensive implementation plan and MOBED has developed a procedure to set annual goals and objectives and define how the activities of the Agency and other City departments participating in economic development will fulfill those goals and objectives. In addition, the Agency Commission should not approve any additional economic development contracts until these plans are completed.

Recommendations

The Agency Commission should:

5.1 Based on staff recommendations, discuss and approve an implementation plan for the economic development program.

5.2 Approve, either as part of the implementation plan or as a separate document, a statement on Agency policy for pursuing and funding economic development projects outside of project areas.

5.3 Not approve any additional economic development contracts until the implementation plan has been adopted and MOBED has developed annual goals and objectives for the City's economic development program.

The Director of the Mayor's Office of Business and Economic Development should:

5.4 Adopt procedures for the implementation of annual goals and objectives for the City's economic development program and how the resources of the Agency shall be utilized to meet those goals.

The Director of the Mayor's Office of Housing and Community Development should:

5.5 Submit a report as part of future Community Development Block Grant legislation that evaluates the workings of the Memorandum of Understanding signed by MOHCD, MOBED and the Agency regarding economic development program income.

The Board of Supervisors should:

5.6 Not allocate additional funds for economic development programs until the Board of Supervisors has received and reviewed a copy of an implementation plan approved by the Agency Commission and a statement of City goals and objectives for economic development programs developed by MOBED outlining how the Agency's resources will be utilized to meet those goals.

Costs/Benefits

These recommendations can be implemented at no additional cost and would ensure that all Agency economic development funds are expended in the most efficient manner to meet the economic development goals of the City.

- THE AGENCY'S SALARY STRUCTURE RESULTS IN APPROXIMATELY 12 PERCENT OF AGENCY STAFF RECEIVING COMPENSATION IN EXCESS OF $70,000 ANNUALLY, TWICE THE AVERAGE OF SEVEN SIMILAR CITY DEPARTMENTS. AN OUTSIDE INDEPENDENT CLASSIFICATION STUDY OF THE AGENCY SHOULD BE CONDUCTED UNDER THE JURISDICTION OF THE BOARD OF SUPERVISORS. THIS STUDY SHOULD DETERMINE WHETHER THE SALARIES OF SENIOR AGENCY STAFF SHOULD BE TIED TO COMPARABLE CITY POSITIONS.

- AGENCY PROJECTIONS OF STAFF AND ADMINISTRATIVE COST REQUIREMENTS THROUGH THE YEAR 2000 INDICATE A SHARP DECLINE IN THE NEED FOR PROFESSIONAL STAFF. THE CONTROLLER'S AUDIT REPORT RECOMMENDS THAT THE AGENCY CONDUCT A STRATEGIC PLAN. THE BUDGET ANALYST RECOMMENDS THAT SUCH A STUDY BE CONDUCTED UNDER THE JURISDICTION OF THE BOARD OF SUPERVISORS AND THAT THE STUDY SPECIFICALLY CONSIDER HOW AGENCY PROFESSIONAL STAFF WILL BE REDUCED IF THE AGENCY RECEIVES NO NEW PROJECTS.

- THE PERCENTAGE OF AGENCY CLERICAL STAFF AND SECRETARIAL STAFF TO TOTAL STAFF IS APPROXIMATELY 72 PERCENT GREATER THAN THE SIZE OF CLERICAL AND SECRETARIAL STAFF FOR SIMILAR CITY DEPARTMENTS. WHILE THE AGENCY HAS IMPLEMENTED A VOICE MAIL ANSWERING SYSTEM AND WHILE 79 PERCENT OF THE PROFESSIONAL STAFF HAVE PERSONAL COMPUTERS, THE AGENCY'S PERCENTAGE OF CLERICAL STAFF TO TOTAL STAFF HAS INCREASED EVERY YEAR SINCE 1986. 58 PERCENT OF THE AGENCY'S SECRETARIAL POSITIONS ARE CLASSIFIED AT THE EXECUTIVE SECRETARY LEVEL. THE 11 EXECUTIVE SECRETARIES IN THE AGENCY ARE EXCEEDED ONLY BY ONE DEPARTMENT IN THE ENTIRE CITY, THE DEPARTMENT OF PUBLIC WORKS WHICH HAS 14 EXECUTIVE SECRETARIES. WHEREAS THE AGENCY HAS 108 FULL TIME AUTHORIZED POSITIONS, THE DEPARTMENT OF PUBLIC WORKS HAS 1,868 FULL TIME AUTHORIZED POSITIONS.

- BY REDUCING CLERICAL STAFFING LEVELS BY EIGHT POSITIONS, THE AGENCY WOULD BE CLOSER TO THE CLERICAL LEVELS IN OTHER SIMILAR CITY DEPARTMENTS. THE REDUCTION OF EIGHT POSITIONS WOULD SAVE APPROXIMATELY $350,000 ANNUALLY.

Introduction

As part of this study, we conducted a general review of staff compensation and staffing levels over a five-year time period. This analysis revealed a number of areas of concern:

- Because comparable City classifications do not exist for senior Agency staff positions (as determined by the Agency), compensation is tied to the salary of the Executive Director. This results in the Agency having twice the

number of employees earning salaries greater than $70,000 when compared to seven similar City departments.

- Although Agency staffing levels have decreased 40 percent over the last nine years, the organization structure remains basically unchanged. All of the Agency's administrative units now have under ten employees while most have retained senior and clerical staff.

- The percentage of clerical staff to total staff has increased every year since 1986 and the percentage of both clerical and secretarial staff is approximately 72 percent greater than other similar City departments. The level of clerical staff as compared to redevelopment agencies in other California jurisdictions is approximately equal (two percent higher) although the percentage of secretarial staff only is approximately 17 percent higher.

- 58 percent of Agency secretarial staff are classified as "Executive Secretaries." The 11 Executive Secretaries in the Agency are exceeded only by one department in the entire City, the Department of Public Works which has 14 Executive Secretaries. Whereas the Agency has 108 full time authorized positions, the Department of Public Works has 1,868 full time authorized positions.

Agency Staff Compensation

The classification and compensation resolution adopted annually by the Agency states that the compensation for each Agency classification is comparable to that provided for similar City classifications. Where appropriate direct comparable classes do not exist, the resolution states that proposed salary levels are based upon City compensation practices for similar levels of responsibility, consistent with the Agency's internal salary structure.

Currently, approximately two-thirds of Agency positions are directly tied to similar City classifications and one-third are determined by the Agency to have no direct comparable classification. For the one-third of positions without a comparable classification, most of the salaries are tied to that of the Executive Director, which is pegged to an Agency conducted survey of the prevailing rate in the industry. The current approved salary for the Executive Director is $119,000 exclusive of fringe benefits. With fringe benefits, total compensation equals $153,000. Agency staff recommend classifications and salaries themselves, with Agency Commission approval. This is unlike regularly budgeted City and County positions, where classification and salary decisions are based on a review by the independent Civil Service Commission.

The Agency's salary structure results in approximately 12 percent of Agency staff receiving compensation in excess of $70,000 annually, exclusive of fringe benefits. As shown in the table below, this rate is twice that of the average of seven City departments which provide an array of services similar to the Agency.

Table 12

Comparison of the Percentage of Agency Staff With Salaries Greater Than $70,000 to Other Similar City Departments (exclusive of fringe benefits)

City Department	Total Staff	Percentage of Staff Earning More Than $70,000 (a)
Public Works - Bureau of Architecture	105	5%
City Planning	108	5%
Mayor's Office	124	10%
Public Works - General Administration	130	10%
Port Authority	245	3%
Public Works - Engineering	253	4%
PUC - Utilities Engineering Bureau	290	8%
Average	179	6%
Redevelopment Agency	**108**	**12%**

(a) $70,000 level calculated at Step 3 of appropriate classification.

One reason for the difference between the Agency and the other City departments is that the various "Chief" positions for each of the Agency's technical units all require a high degree of expertise, even though each position supervises a small number of staff. The salary of these positions is roughly comparable to "Assistant Director" positions in the other departments, because of technical requirements and not because of the number of employees supervised.

This may have been appropriate when the last classification study was done in 1983 but now that staffing levels and project levels have decreased, the classification and compensation of these staff should be reviewed. The results of such an examination may show that the Agency's current classification and compensation procedures are still appropriate and that the technical requirements of the Agency's "Chief" positions dictate a compensation comparable to "Assistant Director" positions in other city departments.

The Controller's Report recommends the Agency contract for an outside independent classification study. Such a classification study should, of course, consider whether comparable City classifications now exist for positions which are currently tied to the compensation of the Executive Director.

Agency Staff Levels

During the height of the Agency's redevelopment activities and under the provisions of the Comprehensive Employment Training Act (CETA), Agency

employees exceeded 300. Over the course of the 1980's, as project activity has diminished, staffing has declined from 182 in 1982 to the current FY 1991-92 authorized level of 108. Staff levels over the previous three years have been relatively stable with a decline of approximately four percent between FY 1989-90 and FY 1991-92.

Our analysis included a review of Agency staff levels between 1986 and 1991. Over this period, the number of professional staff decreased from 78 to 65, the number of support staff decreased from 18.5 to 11 but the number of clerical staff only declined from 33.5 to 32 positions. From 1986 to 1991, the percentage of clerical staff to total staff employed by the Agency grew by 15 percent, from 25.77 percent to 29.63 percent while the level of professional staff has remained at 60 percent of the Agency's staff.

Reductions in Professional Staff

As the Agency's staff has decreased so has the size of each functional unit, especially the professional units. For example the engineering and rehabilitation unit has been reduced from 19 staff in 1986 to six staff in Fiscal Year 1991-92. However, the Agency has combined only a few functional units and each unit has under ten staff with many having approximately six or seven. This results in senior staff and clerical staff being retained for each unit.

The Agency will complete the majority of the work on all existing projects within the next five years. Unless the Agency is assigned new projects, the need for professional staff will decrease and the long-term decline in professional staff will accelerate. Agency projections of staffing and administrative costs for all projects until completion show project staffing remaining steady for the next two years, because of significant activity in a number of project areas, but predict a 40 percent decline in years three to five (FY 1994-95 thru 1996-97) and a 75 percent decline in six years (FY 1997-98). This information is shown in the table below.

Table 13

Agency Staffing and Administrative Cost Requirements FY 1991-92 to FY 1999-00[1]

Year	Total Cost Requirements(a)	Percentage Decline from Base Year (FY 91-92)
FY 1991-92	$6,168,000	---
FY 1992-93	6,169,000	0.01%
FY 1993-94	5,833,000	(5.43%)
FY 1994-95	3,917,000	(36.50%)
FY 1995-96	3,589,000	(41.81%)
FY 1996-97	3,568,000	(42.15%)
FY 1997-98	1,488,000	(75.88%)
FY 1998-99	457,000	(92.59%)
FY 1999-00	420,000	(93.20%)

(a) Projected costs discounted to FY 1991-92 current dollars.

The Controller's audit report recommends that the Agency develop a strategic plan to guide Agency operations. The Budget Analyst recommends that this strategic plan specifically detail how the Agency would reduce professional staff over the next three to five years and which functional units of the Agency would be combined to increase operational efficiency.

Reductions in Clerical Staff

As noted above, the percentage of clerical staff to total staff has increased every year from 1986 to 1991. For FY 1991-92, the Agency budgeted approximately $1.4 million annually in salaries and fringe benefits to fund the current level of 32 clerical positions.

The Agency is organized by functional divisions such as Housing Production and Management, Architecture, Development and Real Estate, etc. The Agency has 20 such divisions, of which 15 can be classified as professional. Each professional division has one or more secretaries and nine of the 15 professional divisions have at least one executive secretary (there are currently a total of 11 executive secretaries employed by the Agency including one confidential secretary to the Executive Director). There is also a separate Administrative Services Division which provides administrative, personnel, purchasing services and pooled clerical support. Depending on the classification of the position, secretarial staff perform general clerical and administrative duties from typing memos and answering the phones to ordering supplies.

[1] Based on Agency Finance staff projections, December 1990.

Based on our initial finding that Agency clerical levels have been increasing, additional analysis was conducted in this area. Our analysis revealed that:

- The Agency has not conducted a workload study to determine whether the current level of secretarial staffing is appropriate;

- The Agency has a percentage of both clerical and secretarial staff approximately 72 percent greater (29.6 percent vs. 17.2 percent for clerical staff and 19.9 percent vs. 11.6 percent for secretarial staff) than the average for similar departments in the City;

- The Agency has a percentage of clerical staff approximately equal to the average for redevelopment agencies in other California jurisdictions (two percent higher) although the percentage of secretarial staff alone is approximately 17 percent higher (19.9 percent vs. 17.0 percent);

- Although an automated voice mail telephone answering system has been in place for almost a year, the Agency has not evaluated the impact on the secretarial workload;

- 79 percent of the Agency's professional staff have a computer terminal at their desk; and,

- The Agency employs executive secretaries to work in non-executive divisions.

Level of Clerical Staffing

The table below lists City departments that perform similar functions as the Agency and the total number of staff compared to the number of clerical staff.

Table 14

Comparison of Agency Clerical and Secretarial Staffing Levels with Other Similar City Departments

Department	Total Staff	Clerical Staff[2]	% of Clerical Staff	Secretarial Staff[3]	% of Secretarial Staff	Voice Mail	% with Computers
Mayor	124	19	15.3%	16	12.9%	Yes	n/a
City Planning	108	27	25.0	20	18.5	Yes	50%
DPW-General Admin.	130	45	34.6	18	13.8	No	n/a
DPW-Architecture	105	13	12.4	11	10.5	No	n/a
DPW-Engineering	253	23	9.1	19	7.5	No	n/a
PUC-Util. Eng. Bureau	277	41	14.8	32	11.6	No	12%
Port	245	22	9.0	15	6.1	Yes	90%
Total	178	26	17.2%	18.7	11.6%		
Redevelopment Agency	**108**	**32**	**29.6%**	**21.5**	**19.9%**	**Yes**	**79%**

The only department with a higher percentage of clerical staff is the Department of Public Works' General Administration Division, which provides centralized support for the entire department. The weighted average of clerical staff to total staff of the departments surveyed is 17.2 percent and the weighted average for secretarial staff alone is 11.6 percent. The percentage of Agency clerical and secretarial staff are both 72 percent above the average for the other City departments. In other words, the Agency has a similar level of administrative support staff to the other City departments but a much higher level of secretarial staff.

Agency staff has suggested that the reason for this differential between the Agency and other City departments is that the Agency provides a number of centralized services - such as purchasing, civil service, etc - that are provided for other City departments. However, this would account for only a small number of clerical positions; certainly not the difference of 13 positions that represent the 72 percent difference between the City departments and the Agency.

Comparison with Other Jurisdictions

Seven of the nine jurisdictions responding to the survey provided enough detailed staff information to determine the percentage of clerical staff. This data is presented in the table below.

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[2] Clerical staff includes all secretarial positions plus all administrative support positions such as clerks, technicians, account clerks, etc.

[3] Secretarial staff only includes those positions with titles of receptionists, secretaries, word processors and typists.

Table 15

Comparison of Agency Clerical and Secretarial Staffing Levels with Other Redevelopment Agencies Located in California

Agency	Total Staff	Clerical Staff	Percentage of Clerical Staff	Secretarial Staff	Percentage of Secretarial Staff
Los Angeles	355	93	26.2%	65	18.3%
Sacramento	145	47.5	32.7	22	15.2
San Jose	112	32.5	29.0	25	22.3
San Diego	55	17	30.9	12.5	22.7
Riverside	40	12	30.0	4	10.0
Anaheim	23	6	26.1	4	17.4
Santa Ana	102	28.5	27.9	13	12.8
Average	119	34	28.9%	21	17.0
San Francisco	**108**	**32**	**29.6**	**21.5**	**17.0%**

San Francisco has a comparable percentage of clerical staff when compared to other California redevelopment agencies (2.4 percent higher), although the percentage of secretarial staff is higher by approximately 17 percent. A review of job classification titles reveals that other agencies have a higher percentage of administrative support positions - such as account clerks, personnel technicians, etc. - while the Agency has more secretarial positions.

Voice Mail and Computer Terminals

In 1990, the Agency implemented a voice mail telephone answering system, and since 1988 the Agency began purchasing computer terminals for non-secretarial staff. Currently, as reported by the Agency, 79 percent of the Agency's professional staff have a computer terminal located at their desk. Both the acquisition of voice mail and computer terminals should result in a reduction in the need for clerical staff but instead the percentage of clerical staff has increased every year since 1986. Based on interviews, professional staff indicate that they provide their telephone extensions to the public and the majority of their calls are received through the voice mail system rather than through a clerical person. This results in a reduced need for secretaries to cover the telephones, beyond the centrally located receptionists on the second and third floors of the Agency's office. In addition, professional staff also indicate that they type drafts of memos and other reports directly into the computer and submit a draft copy to the secretaries to format. As such, the secretaries' typing workload would be reduced.

Reductions in Clerical Staffing Levels

The Agency has not conducted a workload study to determine the Agency's need for the existing level of clerical staff especially since the purchase of computers for professional staff and the acquisition of voice mail. Due to the limited time frame of this audit, we were unable to conduct our own work load study of the Agency's clerical staff to evaluate the Agency's clerical needs. However, based on the Agency's ratio of personal computers to professional staff; the Agency's use of voice mail; clerical and secretarial staffing levels in similar City departments and other redevelopment agencies in the State, the Agency should reduce its number of clerical staff. A reduction of eight staff would reduce the percentage of clerical staff from the current level of approximately 30 percent (32 of 108 positions) to 24 percent (24 of 100 positions). This would still result in the Agency having a level of clerical staff approximately 40 percent higher than other similar City departments.

The positions the Agency should eliminate is a management decision for the Executive Director and Agency staff have indicated that they will conduct a workload study of clerical staff, including all secretaries. However, the following areas should be considered when making reductions in clerical staffing levels:

- It is recommended in Section 7 of this report that the Agency contract with a private firm for document microfilming and that two Central Records positions could be eliminated if this were to occur.

- Historically, there has always been a high ratio of secretarial to professional staff in the various project area administrative units. Currently, the ratio is one secretarial staff for two professionals while the other divisions have one secretary to six or eight professional staff. The Agency could reconsider the need for such a high ratio within the project units.

- The Agency should consider pooling secretarial staff assigned to the various technical units. Although secretarial staff provide specific services to each unit, there does not appear to be any reason why these services could not be offered through a secretarial pool either through expansion of Administrative Services or through the creation of a separate section.

- There are currently three secretarial staff plus an executive assistant assigned to the Executive Director's office. This is a ratio of secretarial staff to professionals higher than any other surveyed jurisdiction.

Based on the results of the workload evaluation, the Executive Director should reduce the number of clerical positions by eight and include the reductions in the FY 1992-93 budget presented to the Agency Commission and the Board of Supervisors.

Secretarial Classifications

Eleven or approximately 58 percent of the Agency's 19 secretarial (19 of the 32 clerical staff could be identified as strictly secretarial) positions are classified at the executive secretary level[4]. With the exception of Confidential Secretary this is the highest secretarial classification in the City. The other City departments listed in the table above have between 5.3 to 30 percent of their secretarial staff positions classified as executive secretary. Of all City departments (not just those used in the comparison above), only the Department of Public Works (1,868 employees) has more executive secretary positions than the Agency.

The Agency also employs several of the ten executive secretaries in non-executive office positions. The Agency job description for the Executive Secretary II specifically states that this position works in the Executive Office. The Agency only has one Executive Office which has one Confidential Secretary, one Executive Secretary III, and one Executive Secretary II. In addition, the Finance Division's director is a Deputy Executive Director which, according to the job description, would entitle that division to an Executive Secretary II. According to the job description of an Executive Secretary II, the remaining Executive Secretary II positions that are located in the other divisions are over-classified. As a result, five of the Agency's Executive Secretary II positions are classified above what the Agency has determined is an appropriate level of responsibility. According to the Agency's job description, an Executive Secretary I or a Secretary II would be a more appropriate classifications for these five Executive Secretary II positions.

By reclassifying downward the five Executive Secretary II staff who are not working in executive divisions,. the Agency could slightly reduce its personnel expenses and ensure that secretarial staff are working at the appropriate classification.

Conclusion

The Agency should take a number of actions to ensure the appropriate compensation and classification of employees and to reduce the number of staff positions.

The percentage of Agency staff with salaries over $70,000 is twice that of other similar City departments, primarily because the compensation for such staff is tied to the Executive Director and not comparable City classifications (as Agency policy requires). As part of the classification study recommended in the Controller's audit report, a specific determination should be made as to whether comparable classifications now exist for senior positions. Also, as part of the strategic plan recommended in the Controller's audit report, a detailed plan should be prepared as to how professional staff would be reduced over the next three to five years, if the Agency assumes no additional projects.

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[4]Includes one Confidential Secretary.

Agency clerical staff as a percentage of total staff has grown 15 percent from 1986 to 1991. Currently, the Agency has a level of both clerical and secretarial staff (on a clerical and secretarial staff to total staff basis) approximately 72 percent greater than the average for similar City Departments. When compared to other California redevelopment agencies, the percentage of clerical staff is similar although the Agency has approximately 17 percent more secretarial staff. Based on the above information, the Agency should reduce the percentage of clerical staff from the current level of 29.6 percent (32 of 108 positions) to 24 percent (24 of 100 positions) to bring the Agency closer in line with other City departments (although it would still exceed the average percentage in other similar City departments by 40 percent). Finally, based on the Agency's secretarial job descriptions, the Agency has five Executive Secretary II positions over-classed for the work they perform. The Agency should reclassify downward the Executive Secretary II positions not assigned to executive divisions.

Recommendations

In order to obtain independent evaluations of the Agency, the Board of Supervisors should retain, through the use of Agency funds, a consultant for:

6.1 A classification study as recommended in the Controller's audit that would include an evaluation of whether comparable City classifications exist for senior positions currently pegged to the salary of the Executive Director.

6.2 A strategic plan as recommended in the Controller's audit report that would include an evaluation of how the Agency would reduce professional staff over the next three to five years and which functional units would be combined to increase operational efficiency, if the Agency assumes no new projects.

6.3 A review of the work responsibilities of all Executive Secretary positions located in non-executive offices, for purposes of reclassifying downward these positions to either Executive Secretary I or Secretary II.

We recommend that the Board of Supervisors:

6.4 Reduce Agency clerical staffing levels by eight positions.

Costs/Benefits

The Controller's audit report estimates that a classification study would cost between $50,000 to $65,000 and that a strategic plan would cost up to $65,000. Additionally, we estimate that a review of the work responsibilities of the Agency's Executive Secretary positions would cost no more than $25,000, for an estimated total maximum cost of $155,000. By explicitly considering, as part of the classification study, whether senior staff positions should be tied to City classifications, annual salary costs could decrease. The consideration of staffing reductions in the strategic plan will ensure the most efficient and effective reductions in staff, which would result in significant cost reductions. The funds

for the costs of these studies should be transferred from the Agency to the Board of Supervisors.

The reduction of eight Agency clerical positions would result in annual savings of approximately $350,000[5] and would bring the percentage of Agency clerical staff closer to that of comparable City departments. The downward reclassification of five Executive Secretary II positions serving non-executive units would result in minor savings in personnel costs and ensure that all secretaries are working in the appropriate classification.

[5] If two Central Records staff are reduced as recommended in Section 7 and these staff are included in the recommended clerical reduction, actual savings would total $300,000.

SECTION 7: RECORDS RETENTION

- **THE AGENCY'S RECORDS RETENTION PROGRAM HAS NOT BEEN EVALUATED SINCE ITS FORMAL IMPLEMENTATION AND SHOULD BE RE-EVALUATED BY THE AGENCY COMMISSION.**

- **THE AGENCY SHOULD REVIEW THE SCOPE AND USE OF THE PROGRAM AND PREPARE A REQUEST FOR PROPOSAL (RFP) TO CONTRACT OUT THE MICROFILMING FUNCTION CURRENTLY BEING PERFORMED BY IN-HOUSE STAFF.**

- **THE USE OF A CONTRACTOR FOR MICROFILMING COULD SAVE AN ESTIMATED $50,000 ANNUALLY WITH ADDITIONAL SAVINGS IN THE FUTURE, ALTHOUGH ACTUAL SAVINGS WOULD DEPEND ON THE RESULTS OF THE RFP PROCESS.**

In 1987, the Agency Commission adopted a Records Retention Program that formalized existing policies and procedures which had been effect on an informal basis since 1971. The Program's policy states that all records which may be required for legal, archival purposes, or records of significance in the day-to-day operations of the Agency will be retained. The policy establishes whether records will be filmed on an active or an inactive basis and the disposition of the paper record after microfilming for each type of record used by each Agency division.

The Agency has a Central Records administrative unit to implement the records retention policy. For Fiscal Year 1991-92, there is one Records and Micrographics Manager and four staff in the Central Records unit. Staff responsibilities include processing staff and external requests for Agency records, processing incoming and outgoing mail, microfilming active and inactive division files and processing files for off-site and on-site storage. Of the four non-supervisory staff, two are dedicated to various clerical duties and two are dedicated to microfilming documents. Due to a lack of space, the Central Records unit is not located in the Agency offices on Golden Gate Avenue but in a separate facility on Eddy Street. The cost of the program for FY 1990-91 is shown in the table below:

Table 16

FY 1990-91 Central Records
Expenditures

Item	FY 1990-91 Cost
Personnel Costs	
Records & Micrographics Manager	$47,954
Records Specialist II (2 @ $32,474)	64,948
Records Specialist I (2 @ $29,666)	59,332
Fringe Benefits (29% of $172,234)	49,948
Subtotal Personnel	$222,182(a)
Administrative Costs	
Office Rent	38,204
Off-Site Storage	15,470
Equipment Maintenance	3,927
Equipment Purchases	3,073
Equipment Rental	2,640
Microfilm Supplies	4,484
Office Supplies	3,577
Records Destruction	334
Subtotal Administrative	$71,709
Total Central Records Cost	$293,891

(a) Because cost of living adjustments were not awarded to City staff for FY 91-92, staff costs have not changed.

The total cost of the Records Retention Program is small when compared to the overall Agency budget. However, the Program is entirely funded by tax increment revenue and, therefore, is funded by monies that would otherwise accrue to the General Fund. The Agency should ensure that the Program represents an efficient and effective use of resources. To achieve this goal, the Agency should:

- Determine if the Records Retention Program meets its goals and objectives, the extent to which staff use microfilmed documents and whether the Program should continue in its current scope; and,

- Develop a Request for Proposal (RFP) to solicit bids from outside microfilm firms for services currently being performed by Agency staff.

Evaluation of the Records Retention Program

The Records Retention Program has not been formally evaluated since the Agency Commission approved the Program in 1987. No reports have been produced that detail the volume of documents microfilmed for each Agency

division, the type and volume of documents that have been requested by both staff and outside individuals, and the effectiveness and costs/benefits of the Program. It is recommended that such an evaluation be conducted by the Administrative Services Manager and that the evaluation include:

- Review of Records Retention Policy - The current policy should be reviewed to determine what records are required for strictly legal reasons, archival purposes, and for significance in day-to-day operations. The volume of records microfilmed by each category and the costs/benefits for microfilming should be determined.

- Record Retrieval - A review of what type of documents are requested by staff and by outside individuals should be conducted. Agency records indicate that only a small percentage of microfilmed documents are requested each year with the most significant external use being documents requested for legal subpoenas. If records that are not required for legal purposes are not being requested frequently, there may be no need to microfilm them. While a rigorous record keeping system is important, it is inefficient to microfilm non-legal documents that may be needed only on an infrequent basis.

- Computer Disk Storage - Nearly 80 percent of all Agency professionals have personal computers. The Agency should evaluate whether it would be efficient and cost effective to maintain some records on computer disk or tape. This would only be viable for documents produced by the Agency but could be appropriate for correspondence, staff memorandums, and minutes of staff and Agency Commission meetings.

- Mail Processing - Approximately one Central Records staffperson has responsibility for coding all incoming and outgoing mail for the Records Retention Program. According to staff, this is done to ensure the accurate application of index codes to documents. This policy should be reviewed to determine if adequate training of staff could eliminate the need for a separate staffperson to accomplish this task, with the resulting workload allocated to all clerical staff.

The evaluation of the Records Retention Program should be prepared for Agency Commission review by May 1, 1992. The Administrative Services Officer should submit the list of documents determined to be needed for legal reasons to the City Attorney for comment on the appropriateness of the list.

Contracting Out Document Microfilming

Nearly all of the documents microfilmed by the Agency are filmed by Agency staff and the film is sent out for processing. Records show that of the four non-supervisory Central Records staff, two are allocated for clerical duties and two are allocated for microfilming. The annual volume of microfilmed documents has been approximately 270,000 for the period 1988-91. The microfilming costs of the Records Retention Program are shown in the table below.

Table 17

FY 1990-91 Costs of Microfilm Program

Item	FY 1990-91 Cost
Personnel Costs	
Records Specialist II	$32,474
Records Specialist I	29,666
Fringe Benefits (29% of $62,140)	18,021
Subtotal Personnel	$80,161
Administrative Costs	
Equipment Maintenance	3,729
Equipment Purchases	1,673
Microfilm Supplies	4,484
Subtotal Administrative	$9,886
Total Microfilm Program	$90,047

As shown above, personnel costs comprise nearly 90 percent of the microfilm program costs.

The City awarded a contract in June 1991 for the provision of microfilm supplies and services. A review of that contract indicates that the Agency could realize potentially significant cost savings by contracting out document microfilming. Based on the average volume of 270,000 document pages, assuming a significant amount of document preparation for microfilming, and assuming indexing of documents, it is estimated, based on the rates contained in the City contract, that outside microfilming of documents would cost between approximately $32,000 to $38,000, for an annual savings of at least $50,000 from the current cost of $90,047. The primary reason for this savings is that two Central Records staff positions could be eliminated.

Agency staff disagree with aspects of this analysis and state that significant staff time would still be needed to prepare documents for microfilming by an outside contractor because of the wide variety and quality of documents that are microfilmed. Since the savings of using an outside contractor are realized because two Central Records positions could be eliminated, this could not occur if significant staff time is still needed for document preparation and the positions must be retained. The contractor estimate was prepared assuming ten to 15 hours of contractor document preparation time. This is within the range used by the Bureau of Building Inspection, which uses the City contractor, and we do not believe that Agency microfilming needs would require significant staff time beyond the estimated contractor document preparation time.

Other potential savings and benefits could occur if a contractor was used for document microfilming. Upon expiration of the lease for the space at Eddy Street,

the remaining three Central Records staff could be moved back to the main office, if sufficient room is available for staff and records storage. Also, with only two staff in the Central Records unit, the need for a supervisory position would be reduced and the unit could be absorbed by the Administrative Services Unit and the supervisory position reclassified. If documents are microfilmed by an outside contractor there is no issue of staff capacity to microfilm documents, so a volume beyond that which is currently being microfilmed could be achieved as necessary at a marginal cost. Furthermore, future equipment costs offset with use of outside contractor.

However, the actual savings of using an outside contractor can only be determined after the Agency has prepared an RFP and solicits bids for document microfilming. It is recommended that this process occur after the evaluation of the Records Retention Program and that the cost and potential savings of contracting for the microfilm program be presented to the Agency Commission prior to August 1, 1992. It is also recommended that the Board of Supervisors reserve the funding for two Central Records positions for the period August 1992 through June 1993 and not release these funds (essentially eliminating the two positions) unless the Agency can satisfactorily document that using a contractor would not result in significant cost savings.*

Conclusion

The Agency has not conducted an evaluation of its Records Retention Program since formal implementation in 1987. The Program should be evaluated as outlined above and a RFP prepared for contracting the microfilming of Agency documents. The Agency should complete the program evaluation by May 1, 1992 and prepare the RFP by August 1, 1992.

Recommendations

The Agency Executive Director should:

7.1 Direct the Administrative Services Manager to evaluate the Records Retention Program and prepare a report for Agency Commission consideration by May 1, 1992. The report should review the records retention policy, record retrieval, the potential for using computers for document storage and current mail processing procedures.

7.2 Direct the Administrative Services Manager to prepare and issue a Request for Proposal for microfilming documents and present to the Agency Commission by August 1, 1992 a report detailing the potential cost and staff savings if the contract is awarded.

The Agency Commission should:

7.3 Review both staff reports and adopt changes, as appropriate, to the Records Retention Program and if significant cost savings result, eliminate two Central Records staff positions and contract for document microfilming.

The Agency should request the City Attorney to:

7.4 Review the list of documents drafted by Agency staff that are considered essential for legal purposes and present comments to the Agency Commission.

The Board of Supervisors should:

7.5 Place on reserve funds for two Central Records positions for the period August 1992 through June 1993. These funds should not be released unless the Agency can satisfactorily document that contracting for document microfilming would not result in significant savings.

Cost/Benefits

The use of an outside contractor for document microfilming could result in minimum annual savings of at least $50,000 through the deletion of two Central Records positions. Additional savings could occur by reducing the classification of the Central Records administrator, consolidating office space, avoiding future capital expenses and reducing the staff needed for mail processing.

Budget Analyst comments on Agency response to Section 7:

In the Agency's response, the Executive Director states that reserving the salaries for two Central Records personnel for the period August 1992 through July 1993, "does not appear reasonable because even if the projected saving were achieved, (and we are uncertain that this will be borne out on the study), over 55 percent of the moneys reserved would still be necessary to pay for contract services." Reserving these funds does not preclude the Board of Supervisors from releasing these monies at a later date to pay for the contract but simply assures that the matter must be brought back to the Board of Supervisors for a final decision.

Further, the Executive Director has responded that our estimate of costs savings is overstated by at least $8,000. We conservatively estimated savings of at least $50,000 by using an outside contractor for the microfilming program, based on our estimated range of savings at between $50,000 and $58,000. The Executive Director also assumes that equipment maintenance will continue at the same level, even if the program is sent out to contract. We disagree with the necessity of maintaining all of the Agency's microfilm equipment if an outside contractor is retained.

General Information

1. Could you please submit the following material to us along with your completed questionnaire:

	Yes	No
A. An organization chart of the redevelopment agency..........	[ ]	[ ]
B. Revenue and expenditure budget for the redevelopment agency for Fiscal Year 1991-92..........	[ ]	[ ]
C. Pay schedule for 1991-92 for all redevelopment agency employees..........	[ ]	[ ]
D. Conflict of interest policy adopted for redevelopment agency employees and commissioners..........	[ ]	[ ]
E. Mission or goal statement for the agency..........	[ ]	[ ]

Organization

2. **How is your redevelopment agency organized?**

[ ] The city council serves as the redevelopment agency

[ ] The city council has established a separate agency with an appointed governing board.

[ ] The city council has established a community development commission with:

  [ ] The city council serving as the governing board.

  [ ] The city council appointing a separate governing board.

Comments:____

____

____

3. **Does the redevelopment agency operate as a City department or as an independent organization?**

[ ] City department

[ ] Independent organization

4. **Does the redevelopment agency have services provided by City departments and staff, with the agency reimbursing the City?**

[ ] Yes

[ ] No

Briefly describe what services are provided by the City________________________

____

____

Personnel

5. **How many employees work for the redevelopment agency? (For FY 91-92)**

Full Time _____

Part Time _____

6. **If a compensation schedule for FY 1991-92 has not been provided, please list the titles and salaries for the ten highest compensated positions.**

Position	Salary	Position	Salary
____________	________	____________	________
____________	________	____________	________
____________	________	____________	________
____________	________	____________	________
____________	________	____________	________

7. **What is the average percentage used by the redevelopment agency to calculate fringe benefit costs for employees?**

______ Calculated fringe benefit percentage

8. **How are redevelopment agency staff salaries determined?**

[ ] Salaries are tied to corresponding city civil service classifications

[ ] Salaries are based on internal classification study

[ ] Salaries are based on prevailing rate in industry

[ ] Combination of above. Please briefly describe ____________________

____

____

9. Who has authority to hire redevelopment agency employees?

[ ] The City Council sits as the redevelopment agency and approves all hiring for agency positions.

[ ] The agency has an independent commission and staff appointments are made by the executive director.

[ ] The agency has an independent commission and staff appointments are made by the executive director and require approval by the agency commission.

[ ] Other____

____

____

Agency Budgeting Procedures

10. Does the city provide funds to the redevelopment agency for administrative expenses (including salaries)?

[ ] Yes

[ ] No

11. If the answer to Question 10 is yes, are these funds provided as a grant from the city or as a loan that must be repaid?

[ ] Grant

[ ] Loan

12. If the answer to Question 10 is no, how are administrative costs of the redevelopment agency paid for?

[ ] Through the issuance of tax increment bonds

[ ] Through the issuance of other long-term debt

[ ] Other____

____

____

13. **How often does the redevelopment agency report its transactions, including revenues and expenditures, to the legislative body (per H&S Section 33615)?**

[ ] Monthly

[ ] Quarterly

[ ] Annually

[ ] Other____

____

____

<u>Project Management and Programs</u>

14. **Does your redevelopment agency use any automated project management systems to track project progress, expenditures and staff allocation?**

[ ] Yes

[ ] No

If yes, please state name and approximate cost of system____________________

____

____

15. **Does your redevelopment agency have a separate administrative unit devoted to housing?**

[ ] Yes

[ ] No

16. **Does your redevelopment agency have a separate administrative unit devoted to economic development?**

[ ] Yes

[ ] No

17. Which, if any, of the following economic development programs has your agency implemented?

[ ] Business and Technical Assistance

[ ] Financial Assistance Loan Programs

[ ] Employment Development

[ ] Other Programs________________________________
____
____
____

18. Whether your redevelopment agency has a formal economic development program within a separate administrative unit or provides funding for economic development programs through regular program expenditures, please state the funding sources for these economic development programs and the approximate percentage for each source?

		Percentage of Total Economic Development <u>Expenditures</u>
[ ]	Tax Increment Financing	______
[ ]	CDBG Program Income	______
[ ]	City Revenue	______
[ ]	Other________________ ________________	______

Thank your for your cooperation. It would be helpful if you could provide the name, title and phone of the individual who could be contacted to provide additional assistance.

Name: ____________________

Title: ____________________

Phone Number: ____________________

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Summary of Redevelopment Agency Survey Responses

Footnotes Are Shown Below	San Diego	Anaheim	Riverside	Oakland	Santa Ana	San Jose	Los Angeles	Sacra-mento	Long Beach	San Francisco	Response Total
PART 1: ORGANIZATION											
Question #2: Redevelopment Agency Organization											
City Council serves as agency	X	X	X	X	X	X					6
Separate agency established							X		X	X	3
Community development commission established								X			1
Question #3: Operate as City Department or Independent Organization											
City Department	X(a)	X	X	X	X						5
Independent Organization	X					X	X	X	X(b)	X	6
Question #4: Does the City Provide Services to the Redevelopment Agency											
Yes	X	X	X	X	X	X	X		X		8
No								X		X	2
PART 2: PERSONNEL											
Question #5: Redevelopment Agency Employees											Avg.
Full Time	55.2	24	37	0(c)	101	112	334	361(d)	15	107	114
Part Time	0	1	4	0	1	4	0	81(d)	4	2	9
Question #6: Titles and Salaries for Ten Highest Compensated Agency Positions											
Limited Responses Were Received - Those That Were Are Listed Separately Below											
Question #7: Average Percentage for Fringe Benefit Calculations											Avg.
Percentage Calculation for Fringe Benefits	18.30%	45%	32%	n/a	22%	27.60%	50%	37%	51%	29%	34.70%
Question #8: Basis for Determining Staff Salaries											
Tied to Corresponding Civil Service Classifications		X	X						X		3
Based on Internal Classification Study								X			1
Based on Prevailing Rate in Industry											0
Combination of Above (e)	X			X	X	X	X			X	6

Footnotes Are Shown Below	San Diego	Anaheim	Riverside	Oakland	Santa Ana	San Jose	Los Angeles	Sacra-mento	Long Beach	San Francisco	Response Total
Question #9: Authority to Hire Redevelopment Agency Employees											
City Council											0
Executive Director							X		X		2
Executive Director w/ Commission Approval											0
Other (f)	X	X	X	X	X	X		X		X	8
PART 3: AGENCY BUDGETING PROCEDURES											
Question #10: City Funds Provided for Administrative Expenses											
Yes	X							X	X		3
No		X	X	X	X	X	X			X	7
Question #11: If Yes to #10, Are Funds Provides As Grants or Loans?											
Grant		n/a	n/a	n/a	n/a	n/a	n/a			n/a	0
Loan	X							X	X		3
Question #12: If No to #10, How Are Administrative Costs Paid For?											
Issuance of Tax Increment Bonds	n/a		X						n/a	X	2
Issuance of Other Long-Term Debt				X							1
Tax Increment Revenue		X			X	X	X	X			5
Question #13: Frequency In Which Agency Reports Transactions to Legislative Body											
Monthly		X									1
Quarterly							X				1
Annually	X		X	X	X	X		X	X	X	8
Other											0
SECTION 4: PROJECT MANAGEMENT AND PROGRAMS											
Question #14: Use of Automated Project Management Systems											
Yes		X	X		X	X	n/a	X	X		6
No	X			X						X	3
Question #15: Separate Administrative Unit for Housing											
Yes		X	X		X		X	X		X	6
No	X			X		X			X		4

Footnotes Are Shown Below	San Diego	Anaheim	Riverside	Oakland	Santa Ana	San Jose	Los Angeles	Sacra-mento	Long Beach	San Francisco	Response Total
<u>Question #16: Separate Administrative Unit for Economic Development</u>											
Yes	X	X			X			X		X	5
No			X	X		X	X		X		5
<u>Question #17: Implemented Economic Development Programs</u>											
Business and Technical Assistance	X	n/a	X	X	X	X	n/a	X	X	X	8
Financial Assistance Loan Programs	X		X		X	X		X	X	X	7
Employment Development			X	X	X	X		X		X	6
Other Programs					X	X				X	3
<u>Question #18: Funding Source for Economic Development & Approximate Percentage</u>											
Tax Increment Financing	n/a	n/a		X (90%)	X (60%)	X (50%)	n/a	X (70%)	X (60%)	X	6
CDBG Program Income			X (10%)					X (30%)	X (36%)	X	4
City Revenue			X (90%)	X (10%)		X (50%)					3
Other					X (40%)				X (4%)		2

(a) Redevelopment services provided by City department and two non-profits established by City.
(b) Independent organization which is staffed by City employees
(c) Oakland reported that the Agency had no employees itself
(d) Includes combination Redevelopment Agency and Housing Authority employees
(e) Most juridications who responded a combination of above used all three methods for determining salaries
(f) Agencies responded that a combination of procedures are used for staff hiring

Question #6: Agencies Providing Information on Top 10 Salaried Positions with Titles

San Francisco

Title	Salary 1st Step	Salary 5th Step
Executive Director	$98,202	$119,366
Sr. Deputy Ex.Dir	$80,808	$98,202
Dep. Ex. Dir, Fin	$76,960	$93,522
Agency Genl Council	$76,960	$93,522
YBC Proj Dir	$66,482	$80,808
Housing Chief	$64,896	$78,910
Engineering Chief	$64,896	$78,910
Architecture Chief	$64,896	$78,910
Real Estate Chief	$64,896	$78,910
Planning Chief	$64,896	$78,910
Average	$72,389	$87,997

Sacramento

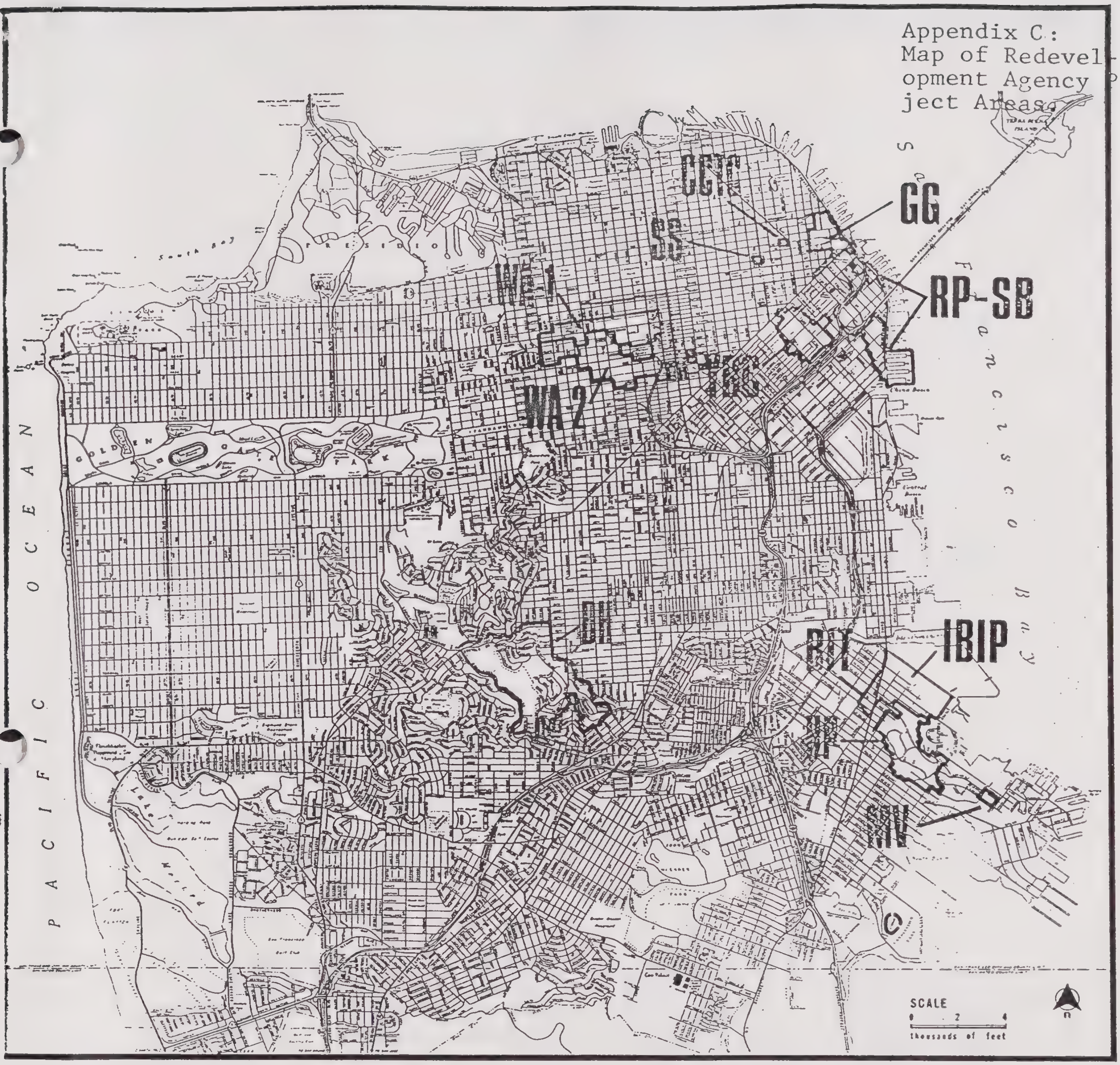
Title	Salary 1st Step	Salary 5th Step
Executive Director	$82,277	$100,008
Deputy Executive Director	$71,111	$86,436
General Counsel	$64,539	$78,447
Director of Administration	$61,466	$74,212
Director of Community Development	$61,466	$74,212
Director of Housing	$61,466	$74,212
Asst Genl Counsel	$55,780	$67,800
Assistant Director of Administration	$53,124	$64,572
Assistant Director of Community Developme	$53,124	$64,572
Assistant Director of Housing	$53,124	$64,572
Average	$61,748	$74,904

Los Angeles

Title	Salary 1st Step	Salary 5th Step
Administrator (estimate)	$107,557	$133,611
Chief Deputy Administrator	$88,524	$109,968
Chief of Operations	$80,484	$99,972
Deputy Administrator	$76,656	$95,220
Deputy Administrator	$76,656	$95,220
Deputy Administrator	$76,656	$95,220
Deputy Administrator	$76,656	$95,220
Deputy Administrator	$76,656	$95,220
Director of Engineering	$73,104	$90,804
Director of Human Resources	$69,552	$86,412
Average	$80,250	$99,687

Long Beach (Salary Range Not Provided)

Title	Salary
Executive Director	$97,420
Redevelopment Bureau Manager	$89,926
Redevelopment Administrator	$70,923
Redevelopment Officer	$68,710
Development Project Manager III	$62,406
Development Project Manager II	$59,310
Adminstrative Analyst III	$50,889
Adminstrative Analyst II	$43,742
Assistant Administrative Analyst	$38,837
Secretary	$30,815
Average	$61,298



SAN FRANCISCO REDEVELOPMENT AREAS

WA-1: Western Addition, Area A-1
WA-2: Western Addition, Area A-2
CCTC: Chinese Cultural & Trade Center
SS: Stockton-Sacramento
DH: Diamond Heights
GG: Golden Gateway

YBC: Yerba Buena Center
IBIP: India Basin Industrial Park
HP: Hunters Point
RP-SB: Rincon Point-South Beach
BIT: Bayview Industrial Triangle
MV: Mariners Village

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MISSION STATEMENT FOR THE SAN FRANCISCO REDEVELOPMENT AGENCY

INTRODUCTION

The San Francisco Redevelopment Agency (SFRA) is entering a new period with the proposed use of tax increment funding. The new period marks a break with the past role of the SFRA in which it engaged in redevelopment programs as a semi-independent agency, concerned mainly with the completion of plans it devised in only part of the City.

The Agency's mission has evolved toward a comprehensive view of the City as a whole and cooperation with other City agencies and community and neighborhood groups aimed at solving citywide housing and development problems defined by elected officials and citizens of San Francisco.

A guiding principal is one of using the special tools of the Agency to assist neighborhoods and communities to plan their own solutions to their problems and to help in the development of neighborhood based programs to achieve those solutions. Also, the Agency will and must be responsive to citywide housing and developmental initiatives stimulated by elected officials.

COMPLETION OF EXISTING PROJECTS

The SFRA still has some unfinished business which must be completed. It must complete these existing commitments on time and within specified budgets so that scarce tax dollars available to the SFRA can be used to tackle citywide goals of increased affordable housing production and economic development initiatives, particularly to serve lower income residents. Fixed budgets and achievable schedules for the completion of these existing project areas will be developed.

Yerba Buena Center

The completion of the Gardens, its cultural complexes and magnificent open spaces, the development of remaining parcels, the assurance of employment opportunities in the major commercial complexes of the project, and the completion of a new, quality residential neighborhood will be accomplished on schedule and within budget.

Western Addition and Bayview/Hunters Point

While the project area plans for these two critically important areas are nearing completion, residents have raised concerns about additional community needs which must be considered in achieving the promise of redevelopment. These must be addressed in a partnership aimed at maximizing affordable housing production, community serving economic development, assurance of employment opportunities, and quality of life initiatives.

To that end, tax increment funds allocated to the Agency from the Western Addition A-2, Hunters Point, and India Basin Industrial Park Redevelopment Areas will be applied in the Western Addition, Hunters Point, and South Bayshore to complete activities planned and

implemented in collaboration with area residents. (This does not preclude the use of additional tax increment funds resulting from the merger.)

Beyond issues of project completion, in cooperation with the Mayor's Office of Housing and others, the Agency will work toward the preservation and conservation of affordable housing at risk due to the withdrawal of Federal subsidies.

Rincon Point/South Beach

Completion of infrastructural development including mass transit and waterfront parks must be completed in a timely and cost efficient manner to insure the beginnings of a new waterfront residential neighborhood.

NEW PROGRAMS

The SFRA will use its special powers to assist ongoing community efforts to create more affordable housing and offer new economic development opportunities to lower income neighborhoods as well as addressing citywide economic concerns. The SFRA will also assist in ongoing efforts to improve the quality of life in neighborhoods and the entire city.

Financing New Affordable Housing Citywide

The SFRA will assist ongoing efforts of other City agencies and community based and other non-profit affordable housing producers in increasing the supply of housing targeted for lower income households. Using its financial powers and funding sources available only to the SFRA, the Agency will, in consultation with affordable housing producers, both non-profit and profit motivated, develop funding mechanisms for the increased production of permanently affordable housing.

Support and Enhance Community Initiatives for New Neighborhood Serving Economic Opportunities

Affordable housing, by itself, cannot solve the problems facing lower income San Franciscans. There must be as well new opportunities for residents of our City for meaningful employment through:

* Participation in multi-agency planning efforts including Fishermans Wharf area, South Bayshore and other areas of the City which will lead to comprehensive economic development programs tailored to the specific needs of San Francisco's residents and economy.

* Tasks and projects assigned by our City Government in response to specific opportunities affecting our City's economic future.

* Collaborative community based problem solving to reconsider the human needs in its existing lower income, residential project areas - YBC, South of Market, the Western Addition and Hunters Point/Bayview - which will lead to creative multi-disciplinary responses.

(ADOPTED 4/11/89)

HOUSING POLICY

The following criteria govern the use of all San Francisco Redevelopment Agency housing funds for the provision of low and moderate income housing:

(1) That over the next 12 years, it be the clear intent of the Agency to use over 50% of the total tax increment funds allocated for Agency activities by the Mayor and Board of Supervisors for low and moderate income housing. In a given year, no less than 25% of tax increment funds shall be used for affordable housing.

(2) That low and moderate income families be defined as up to 120% of median income for first-time home buyers (with an average of 100%) and under 80% for renters (with an average of 60%). In a given year, no less than 25% of housing trust funds will be utilized for families with incomes under 50% of median income.

(3) That neighborhood citizen organizations be consulted and advise the Agency on all proposed housing undertakings in their area.

(4) That neighborhood based and other non-profit housing development corporations be, where feasible, priority participants in new construction and rehabilitation.

(5) That local (City and SFRA) funds be "leveraged" to produce as much low and moderate income housing for the public dollars invested with the deepest affordability possible.

(6) That private enterprise be utilized in the housing effort, as appropriate, in financing, utilizing tax credits, and depreciation, with maximum leverage of public funds a major criterion.

(7) That housing assisted by these funds be affordable by low and moderate income families for the life of the project unless financing or legal impediments require a lesser period of time--but in no event shall this be for less than 50 years.

(8) That the Agency Commission shall approve with the Agency's annual Financial Plan, after hearings on a draft document to receive public and community recommendations, an annual "Tax Increment/Housing Funds Program" that: (a) reports all actual expenditures by the Agency on housing programs during the previous two years; (b) identifies all housing funds from any source presently held by or receivable to the Agency, whether committed or unallocated; (c) identifies all housing funds anticipated to be received by the Agency from all sources in the next year and thereafter, and any restrictions on their use; (d) states City and Agency policy objectives for the use of these funds, including allocations for specific projects or housing programs insofar as is known or projected.

(9) The Redevelopment Commission shall approve all specific project allocations of Agency housing funds.

NOTE A: This policy is prospective and there are ongoing activities that may differ from the above.

NOTE B: There will be a coordinating committee for affordable housing under the Deputy Mayor for Housing and Neighborhoods the procedures for which shall be set out in a memorandum of understanding.

(ADOPTED 4/11/89)
Amended by Resolution No. 100-89 dated 5/16/89

ECONOMIC DEVELOPMENT POLICY

The San Francisco Redevelopment Agency intends to foster local small business participation in all existing and any future redevelopment project areas in order to further one of the state declared fundamental purposes of redevelopment, namely "to expand employment opportunities for jobless, underemployed, and low-income persons, and to provide an environment for the social, economic and psychological growth and well-being of all citizens".* The Agency's emphasis will be in minority communities where the need is greatest.

It is proposed to do so under the following program with the emphasis in minority communities as noted above.

I. The Agency proposes to request in its annual budget that a minimum of 5% of annual tax increment funds be made available for local small business development.

A. The Agency, in order to target and focus the nature and kind of assistance needed and to devise an action plan, will conduct or cause to be conducted surveys of all small businesses in Redevelopment Project areas and a sample of small businesses outside of these areas to identify specific problems confronting them, their stability, and expansion prospects.

B. The Agency will contract with economic development corporations which provide technical assistance services to local small businesses. Such services may include marketing studies, loan packaging, preparation of business plans, record keeping, bookkeeping, payroll services and tax assistance, among other activities. The Agency will also seek the leverage of funds by economic development corporations to maximize the impact of public dollars to assist in business formation and stability.

C. The Agency, with community input and in cooperation with the Mayor's Office of Economic Development, will work in the Redevelopment Project areas to establish a fund which can be used for assistance for loans or direct investments in local small businesses and to community residents wishing to start or expand businesses. The assistance may be in the form of loan funds for working capital, inventory, purchase of equipment, furniture, fixtures, leasehold and facade improvements or direct investment. Use of these funds as a direct rent subsidy, where appropriate, will be explored. Joint efforts in this area will also be explored to augment existing City loan programs addressing these issues.

D. The Agency will encourage, and require where appropriate, that small local businesses assisted by the Agency provide employment opportunities for jobless, underemployed and low income persons.

II. In addition, the Agency will do the following:

A. Continue to encourage local small contractors, consultants, providers and suppliers in Agency contracting and purchasing.

B. Explore with the Mayor's Office of Economic Development, other City departments and economic development corporations:

1. The use of job training funds to provide specific on-the-job training and "tailored" classroom training. Such funds can generate tax credits for participating businesses.

2. Assistance to local small entrepreneurs in entering franchised businesses.

3. The development of business incubator facilities in which start-up and expansion of such entrepreneurs and community residents can share common space and services to achieve reduced rent levels and benefit from individualized management assistance.

In addition to the foregoing economic development policy, the Agency will continue to encourage minority and local participation in development, which may include joint ventures, in all Redevelopment Project Areas.

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* California Health & Safety Code, Section 33071

(ADOPTED 4/11/89)

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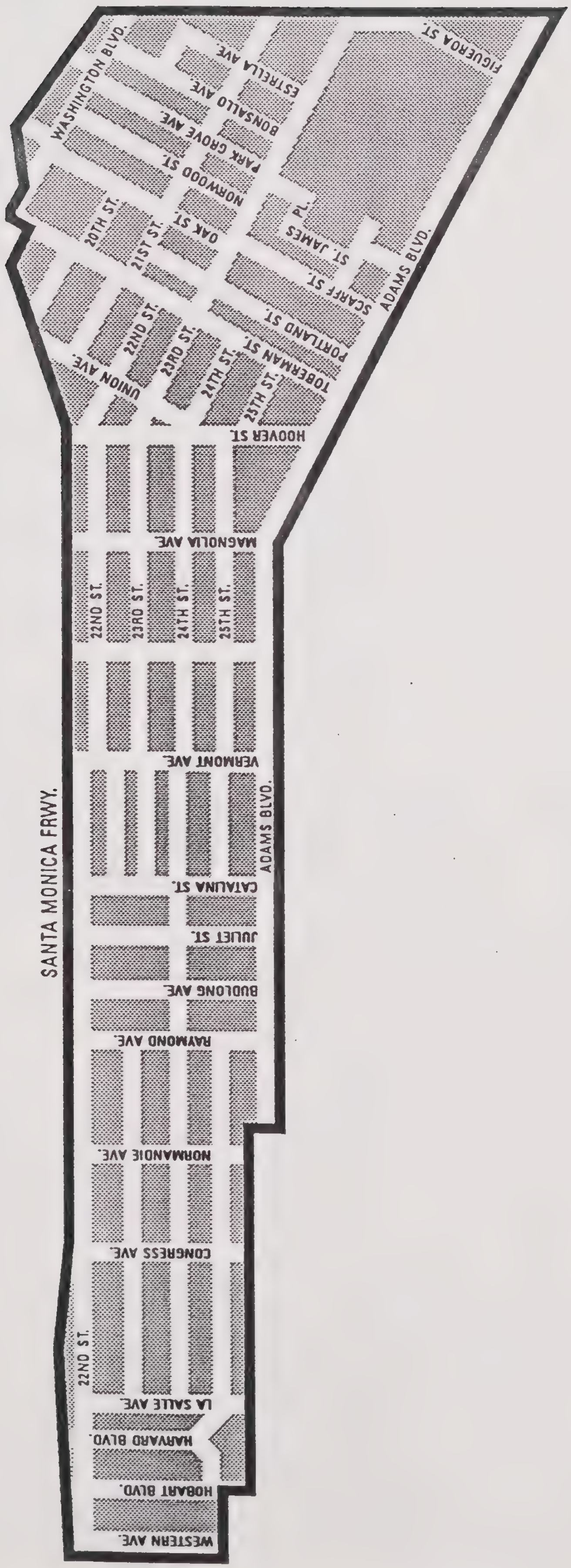
Redevelopment Project

Adams Normandie 4321



PROJECT INFORMATION SHEET

Name	ADAMS NORMANDIE 4321 REDEVELOPMENT PROJECT
Area	404 Acres
Council Districts	1 & 8
Council Members	Gloria Molina Robert C. Farrell
Date of Adoption	May 3, 1979
Date of Amendment	None
Project End Date	May 3, 1999
Tax Increment Cap	$21,000,000
Tax Increment Received Through June 30, 1990	$ 6,003,200
Obligated to Tax Allocation Bond Debt Service	- 0 -
Balance to Reach Cap	$14,996,800
Eminent Domain Expires	May 3, 1991
Maximum Bonded Indebtedness	$ 8,000,000
Debt Establishment Time Limit	May 3, 1991

ADAMS/NORMANDIE 4321 - WORK PROGRAM SUMMARY

BACKGROUND AND KEY GOALS

The Adams/Normandie 4321 Redevelopment Project, adopted in May 1979, contains approximately 404 acres, represents one of the oldest residential communities in the greater Los Angeles Area and provides some of the finest examples of turn-of-the century architecture. The area is located in the central core of the City of Los Angeles, southwest of the Central Business District. It is generally bounded by the Santa Monica Freeway on the north, Harbor Freeway on the east, Adams Boulevard on the south and Western Avenue on the west. Following the adoption of the Adams/Normandie 4321 Redevelopment Plan, the Agency, in cooperation with the Project Area Committee (PAC), established several goals aimed to help restore and maintain the historic residential character of the area, while at the same time improve the neglected public improvements, encourage new in-fill housing development and develop an economic stabilization program for the community.

CONDITIONS AT TIME OF ADOPTION

The Adams/Normandie 4321 Redevelopment Project was found to contain the following conditions of blight:

* The existence of buildings and structures, used and intended to be used for living, commercial and industrial purposes deemed unfit or unsafe to occupy for such purposes and are conducive to ill health, transmission of disease, infant mortality, juvenile delinquency, and crime because of any one or a combination of the following factors:

    a. defective design and character of physical construction

    b. faulty interior arrangement and exterior spacing

    c. high density and overcrowding

    d. inadequate provisions for ventilation, light, sanitation and recreational facilities

    e. age, obsolescence, deterioration, dilapidating, mixed land use character or shifting of uses.

* Economic dislocation, deterioration, or disuse resulting from faulty planning.

* The existence of inadequate public improvements, public facilities, open space and utilities.

* Numerous incidents of structural deterioration plus environmental and land use conflicts which appear to deter significant private investment.

* The juxtaposition of residential and commercial land uses, inadequate circulation, and structural deterioration detracting from the community's environment and diminishing the ability of the remaining assets.

KEY ACCOMPLISHMENTS THROUGH JUNE 30, 1990

From inception of the Project, 902 units have been upgraded either through rehabilitation or move-on methods with Agency financial assistance amounting to $7,262,762. To date, 30 new dwelling units have been constructed with Agency assistance in the amount of $940,000. Construction is underway for a 40-unit low and moderate income housing development for physically disabled and elderly persons by the First African Methodist Episcopal Church. CRA has provided $1.3 million in loans for the acquisition of vacant land, and supplemented a Section 202/8 commitment from HUD in the amount of $2.5 million for development costs.

The proposed construction of a 120 unit housing development and modern senior center for low and moderate income persons is currently under a Disposition and Development Agreement between the Agency and Ward Economic Development Corporation a community based non-profit corporation affiliated with the Ward African Methodist Episcopal Church. CRA is leasing approximately 3.5 acres of land and is providing a $2.785 million low-interest "gap" loan.

In consultation with the PAC, Agency staff has analyzed a variety of vacant lots within the Adams/Normandie 4321 Redevelopment Project Area for the proposed development of move-on housing and new construction. Economic development to stabilize the commercial and retail base of the community include a $2 million, 27,000 sq. ft. Adams Hoover Plaza, one of the newer commercial projects reflects a design that is compatible with the neighborhood, a $2 million expansion of the Hoover Community Recreation Center, and $1.5 million in contract work for tree-planting and public improvements to upgrade the street environment.

Since 1980, the area's assessed valuation has increased from $44 million to $148 million. Studies completed include the following:

* Historical/Architectural Survey - Roger G. Hatheway & Associates, November, 1981;

* Vermont Avenue Commercial Corridor Market Study - The Natelson Group, June, 1984. Identifies commercial development potential.

* Housing Market Study Adams/Normandie 4321 - Taylor Dark/Udewitz, August, 1987. Identifies existing and potential housing development uses.

FIVE YEAR GOALS

Given the changing demographics of the Adams Normandie community, it is imperative that housing development and rehabilitation be provided to meet community needs. The ethnic mix is changing. The 1980 census data provided an ethnic distribution of 39.5% White, 26.9% Black and 33.6% Other. As evident in the surrounding communities, the ethnic mix in the Adams/Normandie 4321 Redevelopment Project is rapidly increasing in Hispanic population. From 1980 to 1989 the Hispanic population increased 54% while the Black population decreased 19% (Cordoba Corporation, 1989). The median family income in the area is only 52% of the Los Angeles County average. Income levels for the area reported in the Natelson Market Analysis Report (1984) found a median income level of $13,830 within a one-mile radius and $14,309 within a two-mile radius as compared to the Los Angeles County average of $24,751 and Los Angeles City average of $20,163.

Surveys of neglected public improvements were conducted in March 1990. Future public improvements activities call for the reconstruction of deteriorated alleys and upgrading of street lighting from incandescent to high pressure sodium lighting.

Subject to the availability of funds, the current public improvements program calls for a program to resurface three alleys in Area 1 (east of Hoover Street) and to upgrade street lighting in Areas 2, 3 and 4 (west of Hoover street). In addition, Agency staff, in cooperation with the PAC, is working to complete a Neighborhood Architectural Resource Survey and to develop the Adams Normandie Urban Design Guidelines which will ensure that the unique character of the community is maintained as new residential and commercial development occurs.

Many buildings along the main commercial strips of Vermont Avenue and Hoover Street are in need of repair, including seismic reinforcements, interior rehabilitation and facade work. As many as 10-12 commercial buildings can benefit from the Agency-assisted commercial rehabilitation program. Analysis performed by previous market feasibility studies indicate that there is a market potential for neighborhood and community retail development. Staff is presently studying the area in order to formulate a comprehensive economic strategy to benefit the entire larger area, which includes the various redevelopment project areas in this portion of the City. One of the aims is to formulate a plan which will provide a broader economic development planning base.

The Adams Normandie Urban Design Guidelines, in consultation with the Project Area Committee (PAC), will be used to review new construction proposals which are evaluated on its appropriateness for the area, design compatibility with the area, and conformity to the Redevelopment Plan.

In keeping with the finding/trends as reported in previous feasibility studies three strategies appear to be appropriate for Adams Normandie in relation to its changing neighborhood characteristics:

1. encourage needed residential low-/moderate-income housing development and continue of the Agency's residential rehabilitation program to improve the housing stock;

2. promote in-fill commercial development for neighborhood-level goods and services; and

3. encourage needed upgrading and rehabilitating of the commercial frontages along Vermont Avenue, Hoover Street and Washington Boulevard.

<u>REDEVELOPMENT PLAN GOALS</u>

1. The rehabilitation of the existing single-family dwellings, particularly those owned or resided in by senior citizens and invalids, as well as multiple-family dwellings and businesses.

2. The preservation and enhancement of the quality of life within the geographic area served by this Plan.

3. The participation by local citizens in the planning, resources, progress, issues and execution of all stages of this Plan with the Community Redevelopment Agency through the Project Area Committee (PAC).

4. The preservation and enhancement of the community character.

5. The retention of existing residents by means of rehabilitation of existing homes and businesses.

6. The elimination and prevention of the spread of blight and deterioration and the conservation, rehabilitation, renewal and development of the Project area to the extent permitted by law and specified in this Plan.

7. The use of vacant parcels for new development. This objective shall be pursued by the Agency upon the recommendation of the PAC in preference to the assembly of land through the removal of structurally substandard buildings not able to be rehabilitated.

8. The improvement of environmental deficiencies.

9. The encouragement of new single-family housing.

10. The provision of a substantial number of dwelling units for low and/or moderate income persons including, but not limited to, the elderly and the handicapped.

11. The provision of land for needed public service facilities, including, but not limited to, libraries, senior citizen centers, and youth centers.

12. The achievement of changes in land use through the development of various facilities as deemed necessary, by the Agency only after consultation with the PAC, such as public service centers, shopping areas and housing.

13. The removal of impediments to land disposition and development through assembly of land into reasonably sized and shaped parcels served by an improved street system and improved public facilities, where such action is reasonably related to one or more of the other objectives of this Plan.

14. The minimization of any relocation which might be necessary, particularly for senior citizens, resulting from Agency acquisition of property in the Project Area where there is no reasonable alternative to effectuate this Plan.

15. The achievement of an environment reflecting a high level of concern for architectural and urban design principles appropriate to the preservation of the community and the objective so this Plan.

16. The conformance of all aspects of the Plan with the General Plan of the City of Los Angeles.

17. The conformance of all aspects of the Plan with the Building Codes of the City of Los Angeles.

18. The reduction of overcrowded living conditions through the conformance of residential developments with all applicable local and State codes.

19. The preservation and enhancement of historical buildings and monuments and the use of architectural and urban design principles to restore such structures.

20. The Redevelopment Plan shall most directly benefit the people who live and/or work in the community.

21. The development by the Agency, after consultation with the PAC, of a plan to return to the low income housing market all foreclosed HUD owned single-and multi-family dwellings within the Project Area.

1990-91 WORK PROGRAM

PROGRAM	STATUS
* Rehabilitate 30 units project wide and implement the incentive program for exterior improvements.	* Program is ongoing.
* Monitor the construction on the Fame/Good Shepherd Development.	* Status on going.
* Monitor disposition of site and construction of the Adams/Magnolia Elderly Housing Development.	* Developer entity partnership issues were resolved, awaiting toxic clearance, anticipate start of construction.
* Formulate an economic development and mixed-use strategy and begin implementation of the same.	* Status on going
* Acquire the land to implement the move-on and/or the new housing construction program to be marketed to low-income households.	* Appraisals were completed, escrows opened on three lots.
* Respond to development opportunities, review/sign off building permits and plans, and provide technical services.	* Status on going.
* Administer the project's financial resources.	* Status on going.
* Provide for technical, legal, and administrative services, including operation costs of site office and PAC-related services.	* Status on going

1991-92 WORK PROGRAM

* Rehabilitate 30 units project wide and implement incentive program.

* Complete the construction on the Fame/Good Shepherd Development.

* Select the developer, monitor the Disposition & Development Agreement and monitor construction of move-on and/or new construction housing to be marketed to low-income households.

* Implement the Urban Design Guidelines.

* Continue the public improvements program, upgrade Street Lighting in selected areas of project and continue alley abatement and reconstruction on Scarff Street and Portland Avenue.

* Develop the Historic Preservation Education Program, an education demonstration and workshop program on historic preservation issues, opportunities and resources.

* Implement the Economic Development Program, develop Public Parking concept and Plan on Vermont Avenue, develop a streetscape design for Vermont Avenue and the Hoover Union area and develop a commercial facade design for Vermont Avenue and Hoover Union area and acquire land for residential/commercial mixed use development on the Vermont Avenue Corridor.

* Continue to respond to development opportunities, review/sign off building permits and plans and provide technical assistance.

* Administer the project's financial resources.

* Provide technical, legal and administrative services, including operation costs site office and PAC related services.

FISCAL YEAR 1991/92 BUDGET

ADAMS NORMANDIE

RESOURCES	
CARRYOVERS	
TAX INCREMENT	1,006,900
NEW RESOURCES	
HOUSING TRUST	93,300
HOUSING TRUST-SER A	1,408,100
BOND PROCEEDS-SER A	5,632,200
TAX INCREMENT	1,378,600
Total NEW RESOURCES	8,512,200
Total RESOURCES	9,519,100

EXPENDITURES	1991-92	1992-93	1993-94	1994-95	1995-96	TOTAL
ONGOING OBJECTIVES						
AN101 RES REHABILITATION	908,500	840,000	75,400			1,823,900
AN104 FAME/GOOD SHEPHERD	7,900	17,600				25,500
AN106 ADAMS MAGNOLIA HSNG	27,800	70,300				98,100
AN107 MOVE-ON PROGRAM	214,000					214,000
AN203 ECON DEVL IMPLEMENT	1,547,100	286,500	193,000	50,000		2,076,600
AN307 ST ABATEMENT PH 5	334,400					334,400
AN699 RESPONSE TO DEVL OPP	168,200	168,000	176,000	184,000		696,200
AN933 PROJECT FINANCING	1,779,000					1,779,000
AN999 PROJECT GENERAL	377,700	350,000	367,500	404,200	429,000	1,928,400
Total ONGOING OBJECTIVES	5,364,600	1,732,400	811,900	638,200	429,000	8,976,100
NEW OBJECTIVES						
AN108 HISTORIC PRESERV & E	60,000	100,000	50,000	50,000		260,000
AN310 PUBLIC IMPROVEMENTS	164,700					164,700
AN311 PUB IMPROV - ALLEY	112,300					112,300
AN613 ARTS PROGRAM	6,000					6,000
Total NEW OBJECTIVES	343,000	100,000	50,000	50,000		543,000
Total EXPENDITURES	5,707,600	1,832,400	861,900	688,200	429,000	9,519,100

WRITTEN RESPONSE OF EXECUTIVE DIRECTOR, SFRA

San Francisco
Redevelopment Agency

770 Golden Gate Avenue
San Francisco, CA 94102

415.749.2400

107-02692-146

January 29, 1992

The Honorable Members of the
Board of Supervisors
City & County of San Francisco
Room 235, City Hall
San Francisco, CA 94102

Dear Members of the Board of Supervisors:

We are writing in response to the audit of the Redevelopment Agency conducted by the Budget Analyst. We would like to thank the Budget Analyst for the energy and attention provided by his staff over the last several months, as well as the thoughtful analysis provided in the audit itself. Since this is the second audit conducted by the City of the Agency in the last six months, the advice provided in both the Budget Analyst's and the Controller's audits have provided Agency staff and Commission with a valuable opportunity to consider many aspects of our operations. We are hopeful that these audits will lead to real improvements in the achievement of the policymakers' objectives for the Agency.

Our response to the Budget Analyst's seven findings and recommendations are as follows:

1. The Budget Analyst is suggesting here that the Board and the Mayor consider a pay-as-you-go method of funding in conjunction with use of tax increment bonds. We agree that this is worthy of consideration and will be happy to raise this issue with the Mayor's office in this year's budget process as we have in the past.

2. The Budget Analyst's second finding relates to the administration of the Agency's budget. The principal recommendation of this section is that the Agency provide additional information to the Board regarding expenditure and revenues, as well as additional budgetary data. We agree that the provision of this additional data would be helpful to the Board and we will begin providing it immediately.

We do, however, disagree with the Budget Analyst's finding that the Agency has modified its budget in any way which violates the spirit or letter of Redevelopment law or the budget resolutions approving the annual budgets. The bulk of the data gathered by the Budget Analyst does indicate that the expenditure budgets are frequently reduced from their initial levels due to revenue constraints which occur during a fiscal year. We have not overspent our budget. These changes are consistent with sound fiscal management since they are necessary to prevent overexpenditure and are analogous to similar changes made in the City budget by the Controller.

The Budget Analyst's data do not indicate any pattern of reallocation or shifting of funds from one project to another without Board approval. The administration of the budget has been entirely consistent with the rule suggested by the Budget Analyst that expenditures and revenues not exceed 10% of the amounts budgeted. Therefore, we do agree with the recommendation that this rule be adopted formally as part of the budget.

3. This finding simply recommends that additional data regarding housing, economic development and other activities be provided to the Board. We agree that the provision of this information will be valuable to the Board and will begin providing it on the schedule suggested by the Budget Analyst.

4. This finding recommends that the Agency conduct biennial evaluations of its projects and prepare summary project status reports. The Agency has been doing this for many years and will continue to do it, and will take into account the specific concerns raised by the Budget Analyst. The finding also recommends modifications to the budget presentation by the Agency. We are attempting to incorporate as many of these as possible into the current year presentation and will incorporate all of them by next fiscal year. Finally, the finding recommends reconsideration of the use of automated project management software to assist in project management. Although we have examined this software previously, we agree that it is worth re-examining and we will do so.

5. The findings related to economic development are essentially process related which, we agree, can result in an improvement in the City's overall efforts to expand the tax and employment base. The recommendations, according to your report, did not identify any dollar cost savings, and are primarily intended to improve coordination.

The Commission is currently reviewing implementation plans for all economic development activities, and has developed a policy for pursuing and funding economic development projects outside of project areas. With regard to the establishment of citywide goals by the Mayor's Office of Business and Economic Development (MOBED), we concur with the spirit of the recommendations. We agree that city-wide economic development goals would assist the Agency, and others to better coordinate activities. However, as a practical matter, it would be difficult for any of the major enterprise departments in the city, the Airport, the Port or PUC to forebear approving "any additional economic development contracts until MOBED adopts annual goals and objectives".

In the meantime we have functioned under a Memorandum of Understanding with MOBED and the Mayor's Office of Community Development which has achieved coordination and improved the efficient development and delivery of economic development efforts. This regular process and the programs of the participating agencies should continue rather than activities suspended as your audit suggest.

We believe the report was remiss in not adequately documenting the Agency's considerable achievements in economic development, despite lack of an overall citywide strategic plan. Those accomplishments include the rehabilitation of an abandoned supermarket in Hunters Point which creates jobs and tax revenue; assisting small business to locate in Agency commercial developments; assisting in revitalizing neighborhood commercial corridors, generating in agency construction projects in a four year period $154,000,000 in payroll income and helping to place project area residents in hundreds of jobs.

6. This finding relates to both the Agency's secretarial and clerical staffing levels and the salary and classification levels of senior Agency staff. On the issue of clerical staffing, the comparison to other City departments does not take into account the clerical staff that is assigned to functions that are centralized in the City structure. Examples of the latter include all the clerical staff of the City Controller's office, Civil Service, Purchasing, Mail and Reproduction Center.

We believe that it is more relevant to use the Budget Analyst's comparison to other redevelopment agencies around the State. This comparison shows that clerical staffing in other redevelopment agencies is nearly identical to that of San Francisco's (28.9% to 29.6% as a percentage of total staff). Nevertheless, the Agency is willing to conduct a clerical/secretarial workload evaluation. And, while some reduction in positions may be possible, we do not believe that clerical staff can be reduced by eight positions (a 25% reduction from current staffing levels and 23% below that of other redevelopment agencies) without seriously impairing the ability of the Agency to function.

Secondly, the nature of the Agency's business requires that it have fairly senior levels of staff in a wide range of professional disciplines (e.g. architects; engineers; financial, real estate, economic development, and housing professionals; attorneys; planners and project managers). For this reason it is clear that there is not another City department "similar" to the Agency in this regard. The Agency is not a composite of the Port, the Mayor's Office and various engineering bureaus. These departments have a far larger proportion of lower paid classifications than the Agency.

The Budget Analyst has not compared senior staff salaries to other redevelopment agencies in the State. Such an "apples to apples" comparison, we believe, would be more reasonable and valid. The data on salaries of redevelopment staff around the State are available.

The Agency is willing to contract for a salary and classification survey, if adequate funding is made available, to determine whether the salary levels are appropriate. This salary and classification survey should also address the Budget Analyst's issue of the level of executive secretarial positions within the Agency, rather than perform a separate study.

The Budget Analyst has added a recommendation in his final draft that a strategic plan be undertaken which includes an evaluation of how the Agency would reduce professional staff over the next three to five years and which functional units would be combined to increase operational efficiency, if the Agency assumes no projects. We have already agreed with the Controller's recommendation that a strategic plan be undertaken. However, the Controller has not suggested a need to reduce staff size. In fact, the Controller has specifically suggested a need to increase staff size if additional projects are undertaken. The Budget Analyst appears to be prejudging the results of a strategic plan that is to be undertaken to explore the future role of the Agency.

The Budget Analyst is recommending that three studies; a classification study, a clerical workload analysis, and the strategic plan of the Agency, be conducted by consultants working for the Board of Supervisors. While we agree that the workload analysis and the classification study could be conducted by an organization separate from the Agency, we believe that it is inherent in the nature of the strategic planning process that the organization for whom the plan is being developed must have the central role in managing and developing the plan.

7. This finding recommends that the Agency conduct an evaluation of its Records Retention Program by May 1, 1992 and then issue an RFP for microfilming documents outside the Agency. We agree that these types of programs should be evaluated periodically and will do so.

As a secondary recommendation, the Budget Analyst suggests that the total funds be reserved for two Central Records positions for the period of August 1992 through June 1993. The Budget Analyst believes that these positions could be replaced by contracting out. Reserving the total cost of these two positions does not appear reasonable because even if the projected saving were achieved (and we are uncertain that this will be borne out in the study), over 55 percent of the moneys reserved would still be necessary to pay for the contract services. In addition, costs for microfilm supplies and equipment maintenance that the Budget Analyst suggests be eliminated would still be necessary in order for the Agency to operate its central records system. Therefore, the projected savings appear to be overstated by at least $8,000.

In summary, while we agree with many of the report's recommendations, we have the following disagreements with the report's conclusions:

- We do not agree that the Agency has made expenditures beyond its approved budget. Expenditures have been made in accordance with state redevelopment law.

- We do not agree that clerical staffing is too high when compared to other redevelopment agencies.

- The Budget Analyst's comparison of the Agency's professional salaries to organizations with a far larger proportion of non-professionals is invalid. The Budget Analyst did not compare the Agency's salaries to those at other redevelopment agencies.

Again, the Agency appreciates the opportunity for a constructive outside review of our operations in order that we might better perform our mission in improving the City of San Francisco.

Sincerely,

Edward Helfeld

Edward Helfeld
Executive Director